# FINANCIAL TIMES



**Double act** Opening up at Michelin



**Browser battle** Netscape v Microsoft



Fool's gold Sharp salesmen,

greedy public



Karnataka

From farming to microchips

Survey, Page 23-25

World Business Newspape

# sent to Singapore

Futures trader Nick Leeson should be extradited to Singapore for trial over the \$360m (\$1.35n) collapse of Barings Bank, the Frankfurt regional court ruled. The decision is only the first in a series of steps required under German law before extradition can go ahead. Leeson's lawyers said they would appeal to the German Constitutional Court. Page 9

'Gas attack confession' by cult chief



Shoko Asahara (left), has started to admit he was involved in a nerve gas attack on the Tokyo subway that caused 12 deaths and left 5,500 injured last March, according to NHK public television. Asabara, head of the Aum Shimrikyo cult, faces trial this month on charges of

murder and attempted murder in connection with the attack. His lawyer was quoted by NHK as saying his client was forced to confess. Page 4

Apec customs checks: Members of the Asia-Pacific Economic Co-operation forum, embrac-ing 40 per cent of world trade, have agreed in principle to adopt common customs checks by 2000.

**Italy sued over mobile phones:** The European Commission started legal proceedings against Italy for failing to allow competition in domestic mobile telephone services. Omnitel Pronto Italia, an international consortium, is alleged to have suffered dis-crimination. Page 14; NTT in mobile phone venture, Page 15

Rhone-Poulenc Rorer, Franco-US drugs group, was last night poised to raise its £1.7bn (\$2.6bn) hostile bid for Fisons as the UK pharmacenticals group made its final plea to shareholders. Page 15

Seat, Volkswagen's lossmaking Spanish subsidiary, will cut capacity by 90 per cent in return for European Commission approval of a Pta46bn (\$365m) state aid package. Page 2

US-EU trade dialogue: Leading businessmen and government officials from the US and the European Union will discuss bilateral trade and commer-cial relations in Seville next month. Page 4

China to boost deprived areas: China is encouraging a concerted effort to redirect resources to poorer areas to counter possible social unrest.

US may step up support for Boanian army: The US may intensify efforts to bolster the Bosnian army if it cannot persuade all warring sides in the republic to reduce their armed forces, US defence secretary William Perry said. Page 2

er: French troops intervened to end the coup in the Comoro Islands. Mercenary Bob Denard surrendered his hostage, President Sald Mohamed Djohar, unharmed. Page 4

UK business gloom: Companies in the West Midlands, one of the most important UK manufac-turing areas, warned that business conditions were gloomier than at any time in the past two years.

GT Chile Growth Fund accused Regent Kingpin, the investment management company trying to take control of the fund, of making inaccurate state ments to investors and has complained to financial regulator Imro. Page 15

Escom founder expands: Manfred Schmitt, founder of Escom, one of Europe's largest personal computer production and distribution companies, bought Hagenuk, lossmaking German telephone manufacturer. Page 15

Buy-out favoured for Tarmac: Private equity investor Schroder Ventures is supporting a manage ment buy-out regarded as the front-runner to purchase the UK housing operations of UK builder Tarmac, Page 21

UK budget tax cuts: The International Monetary Fund warned the UK chancellor of the exchequer not to cut taxes in November's national budget unless public spending plans were curbed.

Crédit Mutuel, France's fifth-largest banking institution, reported total deposits up 8.5 per cent to FFr475.6bn (\$96.9bn) during the first eight months of the year. Page 16

Bitter harvest: Bad weather and lower investment in the agricultural sector have produced Russia's worst harvest in 30 years. Page 22

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# German court rules US, Europe warned on tax cuts

THURSDAY OCTOBER 5 1995

The International Monetary Fund yesterday stepped into the debate over tax cuts in the US and Europe by warning that "fiscal backsliding" could undermine economic growth and unsettle financial markets.

In its latest World Economic Outlook, the IMF yesterday also urged Japanese anthorities to close or restructure more insolvent financial institutions, and suggested that a further reduction in US interest rates is not warranted".

The warning on fiscal policy was prompted by debate over tax cuts in the US, Germany and the UK. Mr Michael Mussa, the IMF's economic counsellor, said financial markets were expecting significant progress in cutting the US budget deficit.

"If these expectations were to be disappointed, then we might see an adverse reaction in bond and stock markets. There would

**Banking** 

reforms

re-emerge

**US** agenda

A drive to liberalise US banking laws, which almost collapsed this

summer, has been pushed back

to the top of the political agenda

and could come to a vote in the

House of Representatives in the

Congressional leaders were yes-

terday working on the details of a bill they hope will satisfy all sides of the financial services

industry and win approval for its

central element - the repeal of

the 1933 Glass-Steagall Act which

bens commercial banks from sell-

The Senate has already

approved a more limited package

of reforms, but has delayed tack-

ling Glass-Steagall until the

The battle over reform had pit-

ted the interests of the commer-

cial banks against the investment

banks, which dominate the secu-

rities markets. Also, insurance

agents, although they had no

direct stake in this struggle, were

determined to block any action

unless they got more protection from banks' encroachment on

Expectations were rising this

week that a new version of the

bill that accounts for these inter-

ests can be framed. For the investment banking industry,

overseen by his commerce com-

mittee, congressman Thomas Bli-

ley of Virginia is close to winning

agreement on a measure requir-

ing commercial banks to put

For the insurance agents, con-

gressman Gerald Solomon, chair-

man of the rules committee, has

secured a five-year moratorium

to prevent the comptroller of cur-

rency from allowing the banks

under his supervision to expand

of relief from regulatory burdens imposed by existing consumer

protection laws.

The deal, however, is not liked

by the Clinton administration.
"No one would shed a tear to see

the whole bill die," said Mr Jerry

Hawke, undersecretary for

domestic finance at the Treasury.

relief is restrictions on national

bank insurance activities, bank-

ers should think long and hard before closing that deal," said Mr

Eugene Ludwig, the comptroller,

whose office is an arm of the

Treasury and regulates many

The American Bankers Associ-

ation will not make its position

clear until it sees the full details.

nationally chartered banks.

Asta-Pacific News

"If the price of more regulatory

their securities activities into a

separate subsidiary.

their own turk

House resolved its differences.

next two weeks.

at top of

IMF urges against 'fiscal backsliding' as Japan told to restructure insolvent groups

be little monetary policy could do to offset it," he said. The fund warned that if governments eased fiscal and monetary policy too much in response to signs of a slowdown "the benefits would

be fleeting and the costs high".

The IMF said interest rate
moves and intervention by the world's leading central banks had helped bring the main exchange rates closer into line with economic fundamentals. Exchange rate policy will be discussed by finance ministers from the Group of Seven leading industrial countries when they meet in Washington on Saturday.

Mr Mussa aaid the yen had clearly been overvalued in mid-1995 and that it remained "quite a strong exchange rate now". He IMF says world resilient to market turmoil ... Warning against 'backsliding' with tax cuts ....

added that the dollar still looked a little undervalued and that a weaker D-Mark would be good for Germany and the rest of Europe. The IMF report argued the intervention episode showed that "co-ordinated actions to affect exchange rates can be effective against serious misalignment When economic and policy developments are supportive and the

timing carefully chosen". IMF economists have cut their forecasts of growth for most of

countries since April, although they argue that this reflects a "mid-cycle pause" rather than a prelude to recession. Output in the G7 – the US, Japan, Ger-many, France, the UK, Italy and Canada - is expected to rise by 2.4 per cent this year and 2.3 per cent in 1996, compared with April's predictions of 3 and 2.6

per cent respectively. The IMF, which urged the Japanese government to take tougher action on financial institutions crippled by bad loans, predicted that the Japanese economy would grow by just 0.5 per cent this year. The latest forecast was completed before last month's Y14,220bn (\$136bn) stimulus package, which the fund

pects for recovery. The forecasts were accompanied by character-istic calls for tough action on government borrowing and cau-tion on interest rates. The fund warned that financial markets were becoming more sensitive to the weaknesses of government policies and failures to address underlying economic imbalances.
The IMF welcomed the recogni-

tion by both the Clinton adminis-tration and US Congress that deficit reduction was essential to secure higher living standards. But it added that the significant tax cuts proposed in their pack-ages should be delayed until sub-stantial progress towards a bal-anced budget had been achieved.

Economic growth has slowed more sharply in the US than the IMF had expected at the time of its last forecast in April, but the organisation predicted that the fall in long-term interest rates since early this year was likely to boost the pace of expansion in

#### Daiwa Bank chief under pressure to resign

By Gerard Baker in Tokyo

The Japanese finance minister yesterday suggested that Mr Akira Fujita, the president of Daiwa Bank, sbould resign to accept responsibility for his role in the bank's loss of \$1.1bn in allegedly fraudulent bond trading at its New York branch.

The call by Mr Masayoshi Takemura, which is likely to lead to irresistible pressure for Mr Fujita's resignation, came amid embarrassing new allegations for Daiwa about the circumstances

surrounding the bank's losses.
"The management must take proper responsibility," said Mr Takemura, using a form of words that usually betokens the imminent arrival of the full weight of official disapproval on the most senior executives involved in

But Mr Takemura also expressed concern about finance ministry officials' own supervision of Daiwa. "I regret that the ministry was not capable of noticing the matter," he said.

The ministry is conducting investigations into the losses, along with the Bank of Japan and the US regulatory authori-ties. Yesterday, officials ordered Daiwa to report results of an internal investigation by the end of the month.

The minister indicated that the Daiwa losses and their implications for Japan's fragile financial system would be a focal point of discussions at this weekend's meeting of G7 finance ministers in Washington.

Mr Takemura said he would endeavour to reassure other governments that Daiwa's loss would not adversely affect the stability of Japan's financial system as a whole.

Since news of the losses last week, Japanese banks have faced national money markets as investors' nervousness about the system's financial health has

At Daiwa's headquarters in Osaka, Mr Fujita refused to bow to calls for his resignation yesterday, but hinted that he might depart once initial inquiries into

Continued on Page 14



Former Russian vice-president Alexander Rutskoi pays tribute to those killed in clashes with pro-Yeltsin troops during the October 1993 uprising in Moscow. A total of 123 people were killed in the rebellion, seconding to the latest official figure

# Apple finance chief quits over strategy

in San Francisco

Apple Computer, the US computer maker which is struggling with intense competition, as been hit by the resignation of its chief financial officer after a

hoardroom row. The company said yesterday that Mr Joseph Graziano had resigned due to differences in opinion with Mr Michael Spindler, chief executive.

The announcement followed a their insurance sales any further. regular meeting of Apple's board To stop these measures from sticking in the throat of the comof directors on Monday and Tuesmercial banks, congressman Jim Rumours had swirled through Leach, chairman of the banking Wall Street before the meeting committee, has thrown in a dose

that Apple's directors might seek Mr Spindler's resignation. Mr Spindler has been under pressure because Apple's share of the world personal computer market is falling, despite record growth in its unit sales.

The company also faces severe problems with component shortages which are preventing it from keeping pace with orders for its Macintosh personal com-

Apple yesterday declined to elaborate on the nature of the disagreement between Mr Spindler and Mr Graziano. But industry analysts said there had been a fundamental split over the company's future.

Mr Tim Bajarin, president of

Apple Computers Share price (5)

Creative Strategies, an industry consulting firm, said Mr Graziano believed that for Apple to expand its share of the personal computer market the company needed a strategic partner. Essentially, he believed that Apple should put itself up for

Mr Spindler, on the other hand, has said repeatedly that Apple "is not for sale". He is believed to have argued that with the company's shares depressed by the component shortage problem, this would not be a good time to

seek a buver. Last month, Apple said the component shortage will have a negative impact on sales and earnings for the fourth fiscal quarter. It will be early 1996 before the problem is fully

Continued on Page 14

#### CONTENTS FT/SP-A Wid Indices Inc. Bond Service 30.31

LOHDON - LEEDS - PARIS - FRANKFURT - STOCKHOLM - NEW YORK - LOS ANGELES - TOKYO

You've flown one way around the world and your luggage the other. Let it go.



overnight dry deaning services give the dothes

Your trip may not have started well, but on your back a whole new lease of life, we'll track down and retrieve your lost luggage. we'll do everything so you can breathe easy.

AUCKLAND, BANGKOR, REVERLY HILLS, CHIANG MAI, FIJI, HONG KONG, JAKARTA. RUALA LUMPUR, MELAQURNE, SINGAPORE, SYDNEY, TAIPEI.

POUR SEASONS . REGENT. DEFINING THE ART OF SERVICE AT 40 HOTELS IN 19 COUNTRIES.

By Caroline Southey in Brussels and Raiph Atkins in London

Meaanres to tighten supervision of insurance groups in the European Union and extend the single market in the sector by eliminating competitive advantages have been proposed by the European

The intention is to ensure regulators look beyond individfinancial strength. The most important issue covered is

"double counting or double gearing", when several insurance companies in the same group count the sama capital more than once for covering their minimum regulatory cap-

Mr Mario Monti, the commissioner responsible for the internal market and financial services, said the plans - which need approval by the council of ministers and the European parliament - would give "policyholders a higher level of protection throughout the EU" and would "guarantee a level regulatory playing field". The Commission hopes the new regulations will come into force in July 1997. They will insurance groups in

eight EU countries, including Germany and Belgium, where no such regulations exist. But some continental insurers expressed concern at an insurer being treated, for solvency test purposes, as a subsidiary of a group which owns only a 25 per cent stake. Mr Emilio Galli-Zugaro, spokes-

man for Allianz, the Munich-

hased insurer, said such a pro-

able in make a positive decision on Seat by the end of October," said a spokes-

man. "However, he is still expecting

confirmation from the Spanish authori-

Volkswagen yesterday swiftly denied suggestions that it would have to cut

production in other parts of the group.

"The envisaged capacity reduction at Seat roughly translates as a cut of pro-

duction of 5 per cent within the Volks-

wagen group. One cannot deduce from

this that we are going to cut production

of VW and Audi brands," said a spokes-

man. VW would stick to its agreements

and not compensate for the lower out-

put in Spain by driving up capacity

Seat called yesterday's announcement

"very good news" and said it would have "no difficulty" meeting the condi-tions. It said it had already reduced

production capacity at its two Barce-

lona plants by half since 1993, from

about 800,000 cars a year to 400,000.

ties of all the details be needs."

capacity by 30%

Volkswagen's loss-making

Spanish subsidiary, has agreed to cut capacity by 30 per cent in return for

Brussels' approval of a Pta46bn (£237m) state aid package, Mr Karel Van Miert,

the competition commissioner, said yes-terday. This amounts to 1,000 fewer cars

produced per day across the Seat group,

The capacity cuts, which will include the closure of a car painting plant in

Barcelona, are to be undertaken over

the next two and a half years, and

amount to roughly 5 per cent of Volks-wagen's total European production.

Officials at the Commission said yes-

terday that agreement on the capacity

cuts had been reached at a meeting

between Mr Van Miert and Mr Juan

Manuel Eguiagaray, the Spanish indus-

try minister, and that Brussels' compe-

tition authorities ware satisfied that

Seat could soon be given the go ahead.

according to an official.

posal "went against all the normal thinking of what a company is in terms of consolida-tion".

Insurance companies will have a four-year grace period on the ownership threshold. Before 2001 a subsidiary must be considered part of the group if the parent company owns 25 per cent of it. This will then drop to 20 per cent.

Most large German insurers have already changed their gearing" does not occur. But the Commission said: "If an insurance company belongs to a wider group, that company's solvency and the overall financial position of an insurance company can be directly affected and may potentially

come under pressure."

The Commission said the proposals allowed member states to decide precisely how they would apply the regula-tions, particularly in relation to double counting. "We are being very flexible," an official said. "As long as the objectives are reached.

The proposals were wel-

comed by insurers in Britain, where double counting is not allowed.

Meanwhile, the Commission sald EU-wide regulations. introduced a year ago and aimed at creating a single market in life and non-life insurance, were already having an impact. In Germany, consumers were henefiting from increased competition among insurers selling motor insur-ance, while in Belgium customers were buying life insurance products marketed by French companies.

#### invested mainly abroad to secure future state pensions. "We can now start the important task of building up

## Minister voices hope for Iberia decision

"Mr Van Miert betieves he will be By Emma Tucker in Brussels and David White in Madrid

> decision on the Spanish government's plan to inject Pta130bn (£670m) into Iberia, the state-owned airline could be reached by the end of the month, Mr Jnan Mannel Eguiagaray, the country's industry

> minister, said yesterday.
>
> After a meeting with Mr Neil Kinnock, the European Union transport commissioner. Mr Egniagaray said the planned aid would almost certainly have to be reduced, but that a smaller amount would still be enough to guarantee the future viability of Iberia. The European Commission was more

> cautious stressing that the dossler was complex and that negotiations might drift in to November.
>
> The Iberia case is being held as a test of the Commission's resolve to be firm

on state aids. The Spanish airltoe

received a large sum of aid in 1992, but

Mr Kinnock has hinted that the Commission will take a tough line on Iberia, possibly limiting the state aid to help fund redundancies. The airline's chairman, Mr Juan

was the last such round of subsidies.

Sáez, wrote in Mr Kinnock last month expressing concern about the delay in considering the state bail-out, which he said was damaging the company financially.

A plan is currently under study to obtain part of the funds needed by theria by transferring its controlling stake in Aerolineas Argentinas to a consortium headed by Teneo, the Spanish state holding company. Under the plan Teneo, which is Iberia's shareholder, would take a minority interest alongside private-sector

Iberia holds more than 80 per cent of the Argentine flag-carrier, which last year lost the equivalent of Pta31.5bn.

#### Progress seen on issue of aid for Spanish car company and national airline **Turkish** crisis puts Seat agrees to cut EU pact

at risk By John Barham in Ankara

Turkey's worst labour dispute in decades, a deteriorating economy and a political crisis now entering its third week could scarcely have come at a more difficult time.

Serious as these issues are, they are threatening a more important objective - a cnsinms pact with the European Union. The European parliament is demanding political reforms as a condition for approving the pact and will debate the issue in December. But the political and economic disarray is delaying the required reforms which diplomats believe can be delivered

only by a strong leader.

A senior EU diplomat warned yesterday that "if the [European] parliament had to vote on customs union today. it would vote No. What we need are some political advances.

However, Mrs Tansu Ciller, the caretaker prime minister, is struggling in cobble together a new coalition after her twoyear-old government collapsed last month. A strike for wage increases by 330,000 public sector employees, which began the day her government folded, is hampering these efforts because Mrs Ciller's refusal to meet their demands is alienating potential allies.

The strikers have closed the ports, disrupted the railways and halted work at big state companies. Now the private sector is beginning in feel the effects of the strike, which is than \$80m a week.

The strike, and the absence structural economic reforms, are undermining recovery from last year's severe recession when gross domstic product contracted by 6 per cent. Inflation is climbing sharply again after slowing for most of the year. Prices last month rose by 8 per cent, the government reported yesterday, compared with 7.2 per cent in September last year. Consumer prices are now increasing at an annual rate of 91 per cent - more than twice the government's target for the

Yet it is political deadlock in Ankara that probably concerns husiness leaders and western governments the most. Horsetrading in the Turkish parliament has halted debate on Strasbourg'a conditions for approving customs union. The EU's principal political demand is a modification of Article 8 of Turkey's anti-terrorism law, which punishes almost any criticism of the government'a battle against Kurdish guerrillas with long jail sentences.

However, the European diplomat, who is playing a key role in negotiating the customs union, said "nearly everyone in Turkey wants closer relations with the EU but Mrs Ciller's many political opponents want to block customs union simply hecause it would benefit her politically."

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By Bruce Clark in Washington and Harriet Martin in Saraievo

The US may totensify efforts to bolster the Bosnian army if it proves impossible in persuade all the warring sides in the republic to reduce their military might, Mr William Perry, the US defence secretary, said yesterday.

He was speaking on the eve of a two-day meeting of Nato defence ministers in Williamsburg, Virginia, at which plans tion force of up 70,000 soldiers in Bosnia will top the agenda. to Bosnia, Nato aircraft fired missiles against Bosnian Serb batteries yesterday. A Nato official said the aircraft had fired in self-defence after being targeted by radar while on routine patrols, but had no details of casualties on the ground. Meanwhile, Mr Richard Holbrooke, the US assistant secretary of state, said yesterday

to Sarajevo had made a "seri-ous proposal" for a ceasefire which he planned to discuss with Serbian authorities to Bel-

grade last night.
After achieving two accords on constitutional reforms, the momentum of Mr Holbrooke's shnttle diplomacy had began to falter in the past week as the Bosnian government refused to agree to a ceasefire. Mr Perry said the ideal solu-

tion to Bosnia's military stand-off would be a "build-down" all the belligerents decrease [armaments] so there is some balance of forces in the region". However, if diplomatic

efforts in that direction failed, Mr Perry said, then "it may be necessary in have some efforts put inin the professionalisation of the Bosnia federation army so that there is not such an

imbalance". US officers have been engaged for the past 18 montha in discreet efforts to promote port for the Bosnian army.

Military co-operation between Some European officials the Moslem-led Bosnian army and its tentative Croat allies. But these efforts have been hampered by the need in avoid direct violations of the UNimposed arms embargo against

may boost Bosnian army support

suspicion between the Bosnian military and the better armed Croats. However, US officials have Russia, into the peace imple-indicated that the arms mentation force Russia has embargo against Bosnia is in the event of a peace settlement, or in the event of a breakdown of pesce talks because of Serb totransigence.

Bosnia, and by the lingering

pave the way for deeper and more open Bosnian-US co-operation. Mr Perry is likely to face hard questioning from his European partners at the Williamsburg meeting over how Washington intends to com-

An end to the embargo would

Some European officials will argue that any decision in pro-vide unconditional support for the Bosnian army could be read be as a green light for further military action by the Sarajevo leadership.

The Williamsburg talks will also focus on the tricky problem of how to incorporate non-Nato forces, especially those of said it will not allow its forces tionally to a Nato command structure. However, the US administration will have little hope of persuading Congress to agree to the deployment of US troops in Bosnia unless Nato is firmly in charge.

"I don't have a solution to that problem, but that's the kind of issue we'll be discussing," said Mr Perry, in refereoce to Russia.

The European ministers to Williamsburg will also pressMr Bosnia and Albania.

Perry over how long the US will be prepared to keep troops in Bosnia, and whether he envisages handing the job of peacekeeping back to the UN after an initial show of force.

Controversy within the US over the merits of keeping ground troops to Bosnia is expected to rise steadily next year as campalgning gets under way for the next presidential election.

Mr Perry said yesterday: "We have estimated it would perke Q1 vide adequate training for the professionalisation of the Bosnian armed forces."

As well as debating Bosnia and the prospects for Nato expansion in central and eastern Europe, the ministers in Williamsburg may touch on the possibility that conflict will spread to the southern Balkans. Such a conflict could pit the Orthodox Christian Serbs against the Moslems of both

#### Shock of change has galvanised some, paralysed others, writes Chrystia Freeland

Winners and losers in Russia's

bine peacekeeping with snp-

#### The main street of Pravdinsk, a provincial town some 500km southeast of Moscow, is one of the lines that separate the winners from the losers in the high stakes game of Russia's economic reforms.

that the Bosnian government

On one side of the road is the thriving Volga Paper and Pulp Mill, purchased this year by a German strategic investor and already paying the highest wages in the region and achieving record production levels. Just a five minute walk away, the Pravdinsk Radio-relay Equipment Plant a fully state-owned defence factory. is struggling to survive as government orders dry up and attempts to produce civilian

The two factories are the

principal providers of jobs and social services for Pravdinsk'a 90,000 inhabitants and their contrasting circumstances epit-omise the two faces of economic reform. As in Pravdinsk, some sectors of the Russian economy appear in be finally recovering from the shock of radical reform, prompting many government officials and western observers to predict an imminent economic boom. But the reforms have also produced thousands of enterprises like the Pravdinsk defence factory which have been unable to adjust to the market and are dragging down the living stan-dards of millions of families as they slowly collapse.

Ironically, before the demise of communism and of the Soviet Union's military machine, the industrial hierarcby in Pravdinsk had been the

"We were one of tha 600 most important factories in the Soviet Union." Mr Navolnev says with remembered pride. And in Praydinsk, "we used to be hy far the town's most important factory and biggest employer. But now it's the

high stakes game of reform has outpaced us."
Today, the enterprise is runmarket economy, the rather robust photocopier "looks more like a panzer". Even more massive is the Georadiolokator, a collection of radar equipment mounted on the

ning at just 25 per cent capacity and has cut nearly 40 per cent of its workforce over the past five years. The average monthly wage is Rbs250,000 (£35) and salaries have not been paid since May. In theory, Moscow has placed a Rbs40br (£5.6m) order for radio-relay equipment this year, but the contracts have not been signed and the defence ministry still owes RbsI.5bn for equipment delivered last year. Mr Navotoev's efforts to con-

vert to civilian production have brought little commercial success. In common with many managers of former Soviet defence factories, his first love is complicated engineering and he takes pride in his factory's technological potential. "We can do every kind of casting. welding, forging and plating under the sun," Mr Navolnev enthuses. "We can make any part, from a tiny component for a wristwatch to a giant tube 6m hy 8m.

Unfortunately, Mr Navolnev's engineering zeal is hard to reconcile with the consumer-driven approach now required in Russia's emerging market economy. "It is humiliating and sad for me to make cheap and easy things like pens and plates," he says. So, he is trying to produce a dizzying array of more sophisticated products, ranging from a pho-tocopier to an elaborate vehicle called the Georadiolokator.

Unfortunately, in the words

of the German managers at the

paper mill, to whom Mr Navol-

nev turned for advice oo the

chassis of a Zil truck which can detect underground structures to a depth of 50m. The one Mr Navolnev has built for the factory has been used, in great local acclaim, to



find ancient church bells hidden underground three centu-ries ago to protect them from Peter the Great's frenzled quest for metal with which to huild Russia's fleet. But, with a price tag of some \$80,000, the ingenious machine has found only three commercial buyers. Mr Navolnev'a single-minded passion for technology is familiar to Mr Klaus-Jurgen Leipold, the German president and managing director of the Volga Paper and Pulp Mill. Before Mr Lelpold's company. Herlitz International Trading.

acquired a controlling toterest

mysterious new world of the at the end of last year, the company had been pushed to the brink of collapse by a similar Russian management style.
"They are all technical guys

- the general director was a paper engineer, the financial director was a paper engineer." Mr Leipold says. "The only thing they had to do in tha old system was produce. They never had to ask themselves questions like 'How can I improve my product?' 'How can I market it?' or 'How can I sell it?"

As a result, says Mr Leipold, the mill was paralysed by last December. Monthly production, expected to be 45,000 tonnes in September, had dropped to 7,000 tonnes. Wages had not been paid for three months, and the mill had no supplies of wood.

Herlitz, which first became involved as a customer, saw no alternative but to take over in order to guarantee access to Russian forests, which account for more than 50 per cent of the trees available worldwide. Today, Mr Leipold and his team of a dozen western managers focus on buying raw materials for the mill and negotiating the sale of its fin-ished products, the two areas where the Russian leadership

was least skilled. Ironically, Mr Leipold points out, the new western proprietors have saved the mill hy providing the Russian techniclans with exactly what the communist system ooce gave them - guaranteed supplies and guaranteed purchasers. "We have basically replaced the central plan." he says. But while the new western

owners have changed the mill's management philosophy, tbey have been careful not to disturb its social structure. No ooe has been sacked and the former general director even conttoues to occupy his old

office, albeit in the reduced role of manager of the mill's network of social services. This social concern and the mill's Rbs2m average wage, twice the regional average. have made Volga the most popular employer in the area. As Mr Leipold explains: "One thing the Russlans have learned is that we bloody west-

ern capitalists are actually more socialist than they are."
Indeed, Mr Letpold and his
team have made such an impression on the people of Pravdinsk that Mr Navolnev has begun to dream of a western white knight to save his enterprise. "If our factory were purchased by a western investor that would be a good thing," be says. "Across the road, the workers' collective is doing very well, even though

the management is foreign. The eagerness of men like Mr Navolnev for western investment is one sign of how profoundly Russian thinking has changed since the collapse of communism. But, so far, only a few bold western companies, many of them interested in a specific sector, have dared make long-term, strategic inveatments. Until Russian managers learn independently in make the changes Mr Leipold has introduced at his mill, much of the country's industry is likely to continue to share the sad fate of the Pravdinsk Radio-relay Equipment Plant.

EUROPEAN NEWS DIGEST

# Norway plans budget surplus

Norway yesterday unveiled a draft budget forecasting the government would earn a surplus of NKr10.6bn (\$1.55bn) for 1996 which would be saved for the day when the country's

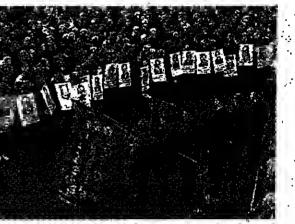
offshore oil wells run dry.

The finance minister, Mr Sigbjoern Johnsen, pledged to continue tight fiscal policies after presenting the proposed budget, which forecast revenue of NKr373.8bn and spending of NKr363.2bn. "The main sbort-term challenge in economic policy is to bring the strong recovery in production and demand in line with a sustainable growth pattern," he told parliament. The surplus was roughly explained by an estimated NKr13.9bn rise to 1996 offshore energy profits to NKr49.3hn - based on an oil price equivalent to \$16.62 a barrel

The surplus, which compares with an estimated deficit of NKr8.6bn to 1995, would be ploughed into the State Petroleum Fund. The fund, which has supported government spending until now, would be converted into a savings fund and

government financial wealth in the Petroleum Fund, enabling ns to meet the long-term challenge of declining oil revenues and an ageing population," Mr Johnsen said. Reuter, O

#### Russian PM rules out presidency



Russian communists yesterday commemorating those who died in the uprising led by hardline MPs two years ago

Russian prime minister Victor Chernomyrdin yesterday said he had no plans to run for the presidency and denied recent rumours of strains in his relationship with President Boris Yeltsin. The rumours about Mr Chernomyrdin's impending departure appear to have been inspired by the mounting public hostility towards the government as the country

prepares for December parliamentary elections. Parliament yesterday began its final session before the elections by observing a minute's silence for people killed to a revolt by hardline deputies to October 1993. Communists conducted a street tribute near the parliament building.

Several prominent Russian journalists had predicted over the past week that Mr Yeltsin would soon sack Mr Chernomyrdin and replace him with a more hardline figure. But Mr Chernomyrdin yesterday insisted: "I have not planned and am not planning in present my own candidacy for the elections for president," Chrystia Freeland, Mosco

Caucasus leader escapes bomb The leader of Georgia's breakaway region of Sonth Ossetia survived an assassination attempt just weeks after a bomb failed to kill the Georgian state leader, Mr Eduard

Shevardnadze, the Itar-Tass news agency reported. A device exploded at the home of prime minister Vladislav Nobody was hurt but the building was damaged by the blast, Tass quoted a senior official as saying.

South Ossetia, a region to Georgia's Caucasus mountains, declared independence in 1990, sparking a bloody conflict until Russian, Georgian and Ossetian peacekeepers went to the area

#### KIO accused to defy UK court

Mr Javier de la Rosa, the Kuwait Investment Office's (KIO) former Spanish representative facing fraud charges, has said he has no intention of responding to a British court order requiring information on missing funds.

The KIO has filed suits in Madrid and a London court against Mr de la Rosa and other former KIO executives, accusing them of fraud. On Tuesday a London judge required Mr de la Rosa to disclose the destination of \$540m in KIO funds transferred on his instructions between 1990 and 1992. Mr de la Rosa was one of seven former senior KIO officials in Spain who were served with a KIO lawsuit in Madrid two years ago after the collapse of the KIO's \$5bn empire in Spain during the 1990s.

#### Greece's inflation declines

Greece's annual inflation rate fell to 8.4 per cent in September from 8.7 per cent in August, reflecting lower prices for food and durable goods, the state statistical service said. The inflation rate is projected to decline to 8.2 per cent in October when taxes on heating fuel are to be reduced, the Economy Ministry said. Inflation is expected to fall more slowly in the final quarter, though the government still hopes to meet its target of 7.9 per cent by December. The Trade Ministry's policing of wholesalers to prevent excess price rises is being extended to the services sector following an 11.3 per cent jump to charges for entertainment and education in

Pressure is also being exerted on manufacturers to hold down price increases for industrial goods. Greece's inflation rate has fallen steadily since January but is still more than twice the European Union average.

#### Danish growth loses momentum

The Danish economy is moving into a period of more moderate growth after an exceptional spurt in 1994, according to an economic survey by the Economy Ministry.

But the ministry refused to be rattled by a poor performance in the second quarter of this year, when GDP declined by 0.5

per cent from the first quarter (although it was 2.5 per cent up on last year). Mrs Marianne Jelved, economy minister, said brief pauses during a recovery were nothing unusual. The survey forecast a GDP growth rate of 3.8 per cent in 1995, slipping to 2.9 per cent in 1996, compared with a 4.5 per cent growth rate last year. The rise in consumer prices will be about 2.1 per cent in 1995 and 2.4 per cent in 1996. The balance of payments surplus will rise to DKr21.5bn (\$3.9bn) next year from DKr19.5bn this year. Hilary Barnes, Copenha

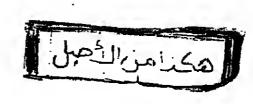
#### Financial reshuffle in France

Mr Michel Prada was appointed head of the Commission des Opérations de Bourse (COB), the French financial markets' watchdog, as part of a reshuffle yesterday of senior officials in the French administration.

Mr Prada, presently head of the state-backed Crédit d'Equipments des PME, which provides finance for small businesses, has been appointed for a six-year term In place of Mr Jean Saint-Geours, who is retiring.

Mr Jean Lemierre, who was head of the office of Mr Jean Arthuis, the economics and finance minister, is to become director of the French Treasury.

It is believed that Mr Arthuis had tried in have Mr Lemierre appointed bead of the COB in an effort to appoint an official closer to his own views. Mr Lemierre is being replaced in Mr Arthuis' office by Mr Christian Noyer, the present head of the Andrew Jack, Paris



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#### **NEWS**; EUROPE

# Crédit Lyonnais go-ahead | A reluctant law unto herself

The French parliament yesterday approved the financial rescue package for Crédit Lyonnais, the atate-owned hank which suffered huge losses during the early 1990s.

in an overwhelming vote from members in the centreright ruling coalition, the National Assembly approved a restructuring by which the bank will be able to remove FFr135bn (\$27.2bn) in assets from its balance sheet for sale, in an operation underwritten by the French state.

The law also approves a similar rescue package for Comptoir des Entrepreneurs, the specialist property bank indirectly owned by the state, which allows it to remove some FFr16bn in loss-making assets from its balance sheet.

The decision to approve the law came in spite of opposition to the rescue plan voiced by the bank's private sector competitors and hy a number of leading politicians including Mr François d'Anbert, now the finance minister, and Mr Alain Madelin, the economics minister who was forced to resign in

The management of two activities of France Télécom, the national phone operator, came in for sharp criticism from the Cour des Comptes, the public sector watchdog, in its annual

report published yesterday, writes Andrew Jack in Paris.

The report said there was inadequate preparation and management in its cable television service and its mobile telephone network. It said the move away from France Telécom's status as a public sector monopoly demanded a "business logic" that had not been in evidence and expressed doubts about the financial prospects of some of its services.

The cable TV service was likely to cost more than FFr1.2bn (\$230m) between 1989 and 1996 before depreciation charges, while the mobile phone service had registered losses of FFr4bn and was not providing sufficient financial information necessary for tight management.

The 1995 annual report of the Cour des Comptes also attacked the government's management approach on urban policy, employment programmes, aid to industry and handling of the budget laws, as well as incidents in various regions.

cussion by the French Senate. In addition, officials are awafting publication of the detailed conditions modifying the rescue plan that were imposed by the European Commission. which granted its approval in

A last-minute amendment passed by parliament included the demand for senior executives of public sector companies to be liable for punishment if found guilty of poor management. However, the

dent of Crédit Lyonnais.

mer directors of Credit Lyonnais, and it will require new legislation before it can be implemented.

The National Assembly finance commission bad already made a number of modifications to the French government's original proposals for the rescue package, including a provision demanding that the sale of assets removed from the bank'a balance sheet be supervised by politicians and others indepen-

duced a provision into the law capping at FFr50bn the extent of interest payable by the state to cover losses as the bank's assets are sold. The National Assembly will need to reconsider the law if the final bill exceeds this level.

The commission also recommended a re-examination of section 52 of the French banking law, which allows the governor of the Bank of France to-"request" help from the leading shareholders of any bank which runs into financial diffi-

The finance commission warned that, in the light of recent crises facing several French banks, the adequacy of this regulation had been under-

Hinting at the need for possihie reforms to the current system of regulation of banks, Mr Philippe Auberger, chairman of the finance commission, said that the French banking com-mission had acted "tardily and inadequately" in its role of supervising Crédit Lyonnais. His comments come ahead of a highly critical report from the Cour des Comptes, the French public sector watchdog, which is expected in the next few

ent they co-manage with employers. Mr Chirac fired a warning shot at managers of the French health system, which costs 10 per cent of GDP and is Rurope's most extravagant. He said he still believed the cure lay in doctors agreeing to improve efficiency, rather than government slapping spending limits on them. But, in the wake of recent figures show-

ing that medical costs are soaring again, at nearly 7 per cent a year, the president said be was worried that his gentler approach, which won him the doctors' vote in the election, was "running out of steam". The French medical profession faced "its last chance" to reform itself, he

Rarlier, Mr Chirac presided over a cabinet meeting which endorsed a draft proposal to pay elderly people FFr4,300 a month allowance to enable them to hire

evenly between central and local government, and create 50,000-70,000 part-time jobs, officials said.

#### Caroline Southey on Brussels' humanitarian aid commissioner s Emma Bonino the diminutive, chain-smoking, Italian radical - has confounded some of her staunchest critics since arriving in Brussels as commissioner in January. "She

has not turned out the hothead everybody expected," says a seasoned member of her team. "I have had to take hack everything I said about her," says an experienced official working in a rival department.

But there is one area of her varied responsibilities that is particularly controversial, and her tendency for straight talking is making it more so. When today she announces

that another Ecu4.6m (£3.8m) in humanitarian aid is to go to refugees in former Yugoslavia, she will be making public a decision made without reference to her fellow commissioners or the European Union's member states.

In fact, nearly Ecn800m of European taxpayers' money is distributed through 82 countries more or less at her discretion.

A near independent agent with that sort of clout within the Brussels establishment would be controversial who-ever did the job. The fact that it is done by Ms Bonino makes it doubly so.

In Italy Ms Bonino huilt ber political career on fighting the establishment. In 1975, during her activist years as a member of Italy's Radical Party, she was detained for three weeks for assisting women to obtain abortions which were illegal. When she was elected as a member of parliament she was given immunity from prosecution. Although she pressed for the immunity to be lifted, it

never was. Technically she could still be brought to trial. She was also detained in New York for distributing clean needles to drug addicts as part of a campaign for safer drug use.

Now Ms Bonino is responsible for three portfolios in the European Commission - fish. consumer affairs and humanitarian aid. But it is her pro-active style in dealing with the little-known European Community Humanitarian Office (Echo) that has raised backles in EU capitals and in Brussels. -Ms Bonino has promoted a

Emma Bonino's varied portfolio in Brussels includes fish, consumer attairs and humanitarian aid clear about the difference ing in 15 foreign trips, includ-ing three to the former Yugo-

slavia, in eight months. Her publicity programme has "provoked a lot of jealousy" says a save lives. But is it not enough because most of the problems senior official, adding that "there are many who would have a political origin and like to see her wings clipped". need a political solution." Ms Bonino is unrepentant.

Openly and without hypocrisy I am battling to give Echo a higher profile. My motivation is to give Echo the same visihility as NGOs. It is a shame European taxpayers do not tal organisations. know how their money is "Governments ask us to give

Echo's handicap is that it is not always visible on the ground hecause it uses the expertise of 160 NGOs with which it has "partnership agreements" and who do the

higher profile for Echo, pack-

One of her more controversial projects has been to promote a medical aid programme in Cuba. "The project has prompted the questions: is the Commission freelancing in Cuba? Where will it use humanitarian aid next?" says an EU official.

Ms Bonino denies that she is using humanitarian aid as a political weapon to influence foreign policy. "No, I have not been tempted to use Echo as an arm of foreign policy. I have been involved in humanitarian aid for many years. I am quite between the two.
"Echo is not the solution. Never. We are trying to soften the suffering of victims, to

Ms Bonino says she cannot use Echo's money to influence governments because it hypasses national administrations and is channelled to victims through non-governmen-

them the money all the time. They say we know the people, we will take care of our people. This happened in Cuba too. And every time I have to explain that we have a rule. and it is a good rule," she says.

Ms Bonino accepts that a structure that allows her to "do what I like, more or less" will have to change.

The heart of the problem, according to an EU official is that "Echo was endorsed with emergency short-circuiting procedures". "It is a classical instance of

bureaucracies avoiding controls by resorting to emergencies. Then the bureaucracy extends what it means by emergency to cover a wider and wider area."

Ms Bonino and member states are negotiating Echo's

first-ever mandate, which she hopes will iron ont some of the difficulties. "We need a legal base so that we know what Echo is mandated to do, in what fields and with what relationship with the council."

She hopes the council will agree to a "consultative committee" rather than a regulatory one, which will set budgets and programmes for longer term crises. She also hopes it will facilitate co-ordination between Echo's multilateral work and hilateral humanitarian projects conducted by member states.

But, she cautions, there are risks involved. "One problem is the lsck of co-ordination which I want to solve and another problem is systematic approval hy memher states which I would like to avoid."

She insists she wants to retain control, not because of personal narcissism" but simply because "if I decide, say Liberia, and you need the approval of 15 member states you will take care of Liberia in six months' time".

Above all she wants to "prevent the idea that because humanitarian aid is not the solution it is a waste of money. I believe saving lives is oot a waste of mooey. Of course to prevent crises is much better. but that is not up to me and

#### clause will not apply retrospec-The law is still subject to distively to those including for-Chirac warns on welfare reform

By David Buchan in Paris

President Jacques Chirac yesterday warned French taxpayers that they would all have to help bail out the deficit-ridden social security system, which could no longer be propped up by payroll contributions from employers and employees.

In his first important speech since his . election in May on the future of France's welfare system, Mr Chirac said he would "guarantee" the present level of pension, family allowances and health insurance, but warned that the whole system was threatened by its chronic deficit. In 1993 the state assumed past social security dehts of FFr110hn (\$21.6hn), but since then the system has fallen into the red tothe tune of another FFr120bn, the presi-

The government of prime minister Alain Juppe has pledged to halve the annual welfare deficit to FFr30hn next year and to reduce it to zero in 1997, as part of its effort to prepare France for European monetary union.

Financial markets and the Bank of France itself appear to be awaiting the government's welfare reforms before taking any further action to ease French the social security system which at presinterest rates.

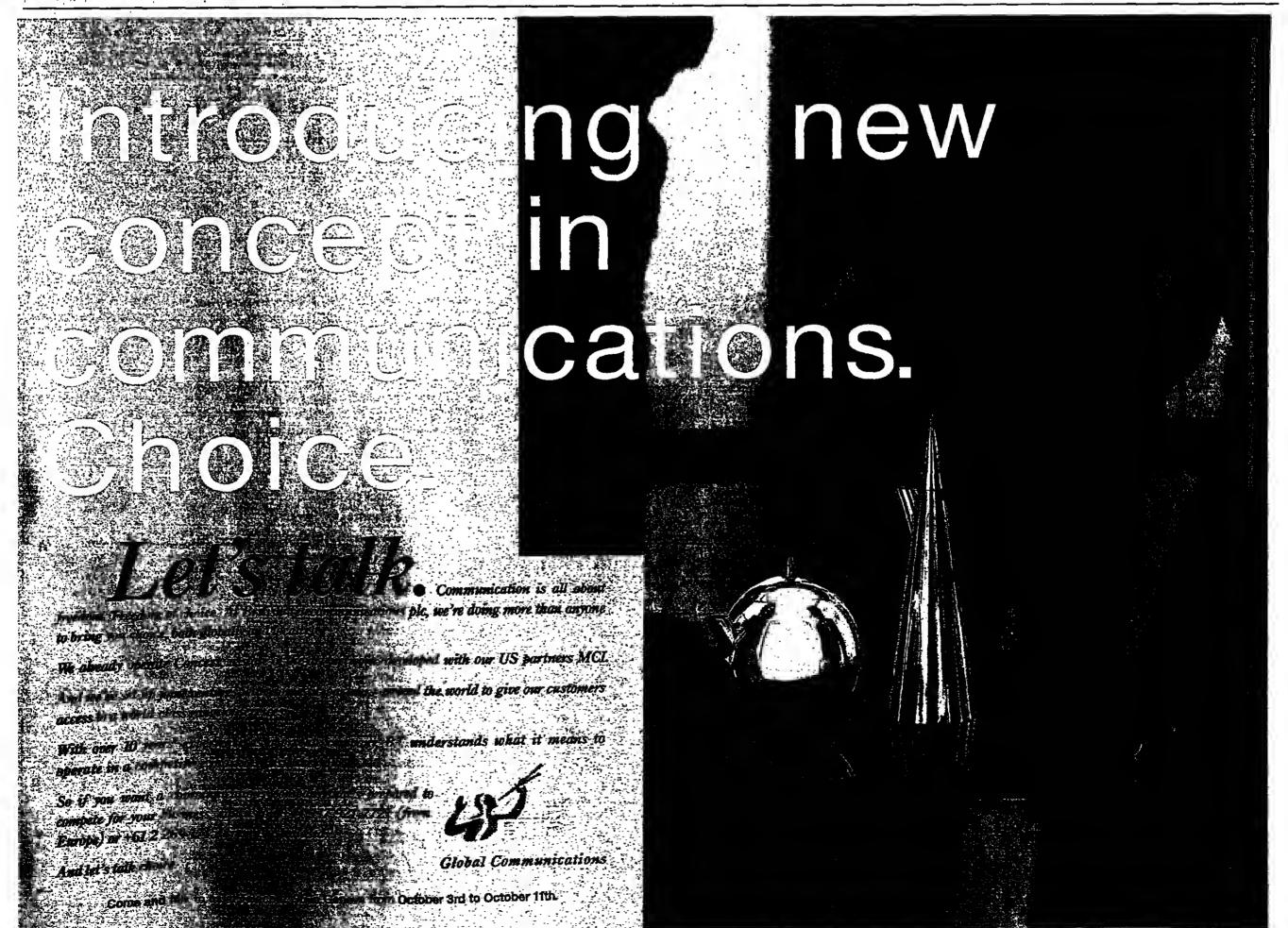
In his speech at the Sorbonne to mark the 50th anniversary of the country's post-war welfare system, Mr Chirac complained that by being the only leading

The medical profession in France faces 'its last chance' to reform itself

industrialised country to fund welfare from payroll charges, France had handicapped itself. "This penalises us in international competition, and in employment...hy encouraging companies to buy machines rather than hire people."

The president's main aim yesterday was to call for national calm in debating weifare reform, in advance of next Tuesday's general strike in the public sector. The immediate spark for this strike is the government's plan to freeze public sector pay rates next year in order to help slice 10 per cent off the budget deficit, but the unions are also worried about changes in

If approved by parliament, the measure would cost FFr20bn next year, split



# Asahara 'admits poison gas role'



left), the religious cult leader accused of masterminding a poison gas attack on the Tokyo subway system in which 12 people were killed and about 5,500 injured last March, has started to admit his involvement, according to NHK public television. A confession would mark a complete reversal for Mr Asahara, who has steadfastly denied involvement in any of the crimes for which the Aum Shinrikyo cult is believed to be responsible. After his arrest in

May, he refused to co-operate with the authorities. NHK reported that Mr Asahara, who is charged with murder and attempted murder in connection with the subway attack, had started to confess to these crimes as well as others, including an earlier gas attack at a mountain resort which left seven people dead and made 600 ill and ordering the murder of a follower who tried to leave the cult last year.

However, NHK also reported that Mr Asahara's lawyer and members of the cult believe the confession to have been ohtained by the police with the promise that Aum Shinrikyo would not be forced to disband. Michiyo Nakamoto, Tokyo

#### North Korean rice crop 'halved'

North Korea'a farmers are likely to harvest only half their normal rice crop because of flood damage, Japanese Food Agency officials said yesterday. They said North Korean diplomats in Beijing also confirmed earlier reports that the North's overall grain production for the 1995-96 crop year was likely to be down by about a third from its 5.67m tonne target. The food agency officials were in the Chinese capital to sign a deal with Pyongyang which will see Japan supply a further 200,000 tonnes of emergency rice to North Korea. Japan had already agreed in June to send 300,000 tonnes of rice.

"We're informed that total grain output in the North this year is expected to fall to 3.77m tonnes from the original target of 5.67m tonnes," a senior agency official said. Output of rice, a staple food in the North, was expected to be about half of the 2m-tonne target, another official said.

#### Indonesian trade in surplus

Indonesia yesterday announced a trade surplus of \$363.5m in July, compared with a deficit of \$204.9m in June, Information Minister Harmoko said the consumer price index rose 0.38 per cent in September compared with a 0.32 per cent rise in August but lower than the 0.53 per cent in September 1994. "The surplus for July is a good sign and will restore confidence in the economy, which is on the right track," Mr Edwin Png, country treasurer for Bank of America, said. Inflation seems to be under control and although it was slightly higher than August, it's no big deal compared with the level last September (in 1994)," he said.

 Mr James Hanson, a Jakarta-based economist at the World Bank, said Indonesia should reduce its outstanding foreign debt on the back of increased capital inflows. "in the context of increased private inflows of equity and debt, it would be desirable for the the government to continue to reduce the outstanding public foreign debt," he said. Reuter, Jakarta

# China aims to boost growth in poor areas

By Tony Walker in Beljing

China vesterday released documents calling for a concerted effort to narrow a widening gap between its prosperous coastal regions and its underdeveloped hinterland to counter possihle social unrest in deprived areas.

Beijing would also encourage development of larger regional units rather than individual provinces as part of attempts to redress serious imhalances in income and living standards across its vast territory.

The drive to re-direct resources to poorer areas was outlined in China's ninth five-year plan (1996-2000) and its 15-year strategy, both of which were approved last week hy the Communist party's central committee.

The strategy blueprint, designed to carry China forward into the next century, is short on detail and long on general principles. But it underscores leadership worries about serious imbalances in economic development. Chinese leaders have become inland provinces. The authorities

A senior official of China's Ministry of Internal Trade has promised better access for foreign companies to its booming retail sector and said the distribution system is in urgent need of improvement, Reuter reports from Shanghai. Beijing has approved 14 joint

venture department stores in 11 cities on an experimental basis, Mr Ding Junfa, director of the ministry's office, was quoted as saying by the China Securities newspaper. Imported goods may account for np to 30 per cent of the turnover of these stores hnt they must achieve a foreign exchange balance on their own, Mr Ding said.

increasing concerned over widening disparities hetween coastal areas, which have attracted a flood of investment, and the interior. Many among an estimated 70m Chinese living helow the poverty line are from

After the experimental period is over, China will expand the number of cities and stores where such joint ventures can operate, he said, but gave no timetable. China's 1994 retail sales were Yn1,605bn (\$193bn), np

81.2 per cent over 1998. China will also allow joint ventures in chain stores and distribution centres on an experimental basis and is exploring possible joint venture or co-operation deals in the wholesale

distribution centres and transport, is backward and in need of foreign expertise and equipment, he added. pledged to increase investment in impoverished regions and provide tax

China's distribution system,

including warehousing, ports.

and other incentives to lure investors to more remote areas.

The 15-year plan, known as "Long-Term target for the year 2010", called for larger cash transfers to poor

areas, for priority to be given to infrastructure projects in poor areas, and also for lahour-intensive industries such as textiles to be moved to the

Proposals to boost development in poorer regions were aimed at complementing China's overall economic strategy of completing the shift from a planned economy to a market-oriented system by 2010.

"During this period, we shall establish a comparatively complete socialist market economic system... while laying a solid foundation for the basic realisation of modernisation in the middle of the next century," the plan

China's ninth five-year plan and its longer-term blueprint for economic development called for increased emphasis on agriculture to feed a population of 1.2bn, a continued opening to the outside world and the progressive reduction of tariff and non-tariff

harriers. The documents also outlined steps to improve the performance of state enterprises, but they gave little encouragement to those demanding swifter privatisation. Rather, Chines leaders emphasised the need to reinvigorate state-owned companies as the basis of the evolving socialist market system. "Whether we will be able to speed up the process of modemisation and gain the initiative in international co-operation and competition will decide China's position and destiny in the next century," the cen-

tral committee said. The documents also promised: A progressive levelling of the playing field for foreign investment, in accordance with the country's attempts to join the World Trade Organisation

A firm grip on construction to help control inflation and to protect farm-

 Development of an interbank market to belp create a real market for

# **Inflation soars** in Philippines

Philippine inflation leaped by more than three percentage points to 11.8 per cent in Sep-tember, prompting widespread concern that the economy may he overheating.

The jump - the sixth successive monthly rise since infla-tion touched a low of 5.1 per cent in February and the largest monthly increase since 1991 - caused a fall in the Philippine stock market of 1.8 per cent to 2,569.

Stock exchange analysts pointed out that the market bad been languishing for weeks in expectation of higher inflation hut expressed surprise at the size of the increase in yesterday's announcement,

This is well above what anybody expected," said Mr Joey Salceda, chief researcher at SBC Warburg in Manila. "The government seems to have let the inflationary monster out of the cage, and it is going to be very difficult to put it back in again. However, Mr Gabriel Sing-

bank, said that the rise was a temporary hlip because of rice shortages which would be ironed out by the end of the month. He disagreed with suggestions that the rapid growth in broad money (M3) was

behind the steep price rises. The latest inflation figures come just five days after the government put its final signature on a revised agreement with the International Monetary Fund, permitting the Philippines to increase the annual M3 growth target from 24 per cent to 31 per cent.

The government told the IMF that economic growth. which was 5.2 per cent in the first six months of 1995, was being beld back by tight monetary policy, Economists said yesterday

that, at 9.8 per cent, the central bank's bellwether 91-day T-bills were too low and should be pushed up steeply to choke off the growing inflationary momentum. "The government is at a critical juncture." said Mr Salceda. "Either it bites the

# Philippines: inflation Annual % change in CPI Sep 1994 95

bullet now and attacks inflation or it allows the problem to get worse."

Concern was also expressed yesterday about the government's commitment to approve higher petrol pump prices, which are subsidised at about half world market levels. Under the revised IMF agree ment, the government has pledged to deregulate oil prices as soon as possible.

Leading Philippine companies, however, have warned they will raise consumer prices in the event of an oil price increase. The Philippina sen-ate, meanwhile, pledged last week to boost the minimum wage by 25; per cent in responsa to a petrol price rise.

### Thailand 'committed' to financial liberalisation the \$80m initial capital require-

Thailand remains committed to liberalisation of its financial market, despite moves in tha past two weeks to restrain some foreign lending and worries that a more open market could exacerbate the country's rising inflation rate and large current account deficit, Mr Surakiart Sathirathai, finance minister, said yesterday.

Mr Surakiart said the strict rules and high capital requirements for new foreign banks and curbs on non-baht lending were "temporary measures". "The liberalisation policy is there," be said. "But how we

would like to liberalise depends on the condition of our economy at a given time... and we don't expect the cur-rent situation to last for five years. Liberalisation does not mean everyona can do anything they like. We don't want the Thai and foreign banks to encourage speculation or encourage sectors that are not productive for the economy. Responding to criticism that

ments for new foreign banks, at least four times higher than any other country in the region, would lead to a plethora of high-volume, low-margin banks rather than a broaden ing of financial servicea offered, Mr Surakiart said additional licences would be offered for foreign banks with particular specialties which

were lacking in Thailand. But he noted this additional round of licences was some time away, adding that, "for psychological rather than economic reasons", licences for five new domestic banks would be issued before any new foreign banks were allowed to begin operations. Those new domestic licences should be granted in mid-1996, be said. Asked to comment on the

clause in the new banking regulations specifying that only banks from countries with financial liberalisation policies would be allowed to apply for new licences - a measure seen as a snub to the US for its exemption request-in the General Agreement on Trade in Services - Mr Surakiart said that the US had a financial liberalisation policy "to a certain extent, but I would welcome them doing more".

Mr Surakiart also said that next month the Securities and **Exchange Commission would** consider the establishment of Thai Trust Funds, which would eliminate the large price differential between foreign and domestic shares quoted on the stock exchange. This will open new opportunities for foreign and domestic investors to invest in our capital and money markets," he said. "Wa" bave to broaden and deepen. those markets,"

He added that a high-level committee studying long-term measures to reduce Thailand's current account deficit would be ready with its recommendations in two to three months. Tha committee was particularly interested in ways to increase earnings in the services sector, notably from areas such as transport, shipping and copyright.

#### **NEWS: WORLD TRADE**

# doubts over use of LNG

By Ted Bardacke in Bangkok

The selection committee overseeing Thailand's \$4.5bn Independent Power Producer electricity programme may eliminate bidders who based their projects on the use of liquefied natural gas, the new governor of the state-owned Electricity Generating Authority of Thailand (Egat)

Thailand does not bave enough indigenous natural gas to snpply all the demand expected from the IPPs and steps have been made to set up an LNG gas terminal to fuel the IPPs.

But Mr Preecba Chungwantana, who assumed the top post at Egat on Monday said that the high price of LNG and potential snpply difficulties made it risky for Egat to bny electricity from power plants using it as fuel.

Ahout half of the 80 consortiums which submitted IPP bids proposed using natural gas as their primary source of fnel on the assumption that LNG could be used as a substitute and that the price differential between the two fuels would be passed on to the consumer through Egat. Most of tha rest of the hidders proposed nsing imported coal to fire their

Mr Preecha added that once snpply arrangements were settled, an additional IPP programme exclusively for power plants fueled by LNG could be implemented.

Ha also said that due to many errors in the hid documents fited by the consortinms. Egat was postponing the announcement of its short-list for three months until January.

The extra time will be used for consultations between Egat and the consortiums, so that they may correct the errors which included listing electricity prices in US dollars rather than Thai haht and asking Egat to start buying electricity as early as 1998 when the earliest purchases contemplated are in 2000.

# Thailand US and EU open trade dialogue Congress

By Nancy Dunne

Businessmen and government officials from the US and the European Union are to meet in Seville next month to discuss broad bilateral trade and commercial relations, Mr Ron Brown, the US commerce secretary, said yesterday.
With hoth Brussels and Washington reluctant to pursue a free trade agreement in

the near future, the husinessdriven dialogue is seen as a logical alternative towards realising a free trade area. "We ara always issuing white papers and theorising on

issues with not enough consultation with industry, where the rubber meets tha road," Mr Brown said yesterday. 'It is

apanese carmakers are not

authorities time and again to lift the ban," said an official at the Ministry of International

a particular sensitivity about Korean animosity towards

Japan which has lingered since

Japanese colonisation of the

Korean peninsula earlier this century. "It looks like an

attractive market but we

would rather not arouse anger

crucial that we make policy decisions in concert with those who are most affected."

He will lead the US delegation along with Mr Paul Allaire, Xerox chairman, and Mr Alex Trotman, the chairman of Ford. EU commissioners Sir Leon Brittan and Mr Martin Bangemann togetber with Mr Jürgen Strube, chairman of BASF, and Mr Peter Sutherland, chairman of Goldman Sachs international, will bead the EU side.

Mr Brown said business
recommendations would he

presented to President Bill Clinton for his discussions with Mr Jacques Santer, president of the European Commis-sion, and Spanish Prime Minister Falipe González during the US-EU summit in December.

Companies on both sides of Round of global trade talks. US the Atlantic bave helped develop the agenda. Four working groups will be established to address standards, testing and regulations; trade liberalisation; investment and third

country relations. EU and US officials sent letters to 1,800 businessmen last April soliciting views on improving bilateral relations. US businessmen showed the greatest interest in efforts to reduce trade barriers created by standards, testing and regu-lations. Particularly, they wanted co-operation on environmental regulation.

Some US businessmen wanted further trade liberalisation with others recommending an acceleration of tariff cuts agreed in the Uruguay companies also wanted greater co-operation promoting the business climate in central and eastern Europe and other third country markets. Botb US and EU businessmen said they wanted faster and co-ordinated deregulation of telecommunications.

European executives suggested that the EU and US co-ordinate to reinforce the multinational trade system and tbat regulatory issues he addressed. On the EU side there is interest in the harmon isation of taxation and competition policies. Several executives proposed using the Internet to facilitate trade by linking buyers and sellers in specific sectors and potential candidates for joint ventures.

## disappoints Caribbean exporters

By Canute James in Kingston

US legislators, concerned about a flood of imports and a possi-ble loss of jobs, have halted consideration of proposals intended to give 24 Caribbean countries "parity" with Mexico in selling a range of exports to the US.

The Caribbean countries fear they will lose their markets to Mexico, which has an advan-tage as a member of Nafta.

The legislation offered the Caribbean Basin enbanced access, particularly for textiles and clothing, one of the faster growing exports to the US. Some legislators, reacting to concerns of domestic producers and organised lahour, removed the "parity" proposals from pending legislation.

It is the second time in two years that legislators bave rejected plans to put the Carib-bean on a par with Mexico. The 24 countries in the

Caribbean and Central Amerlca have benefited from the Caribbean Basin Initiative, a trade programme implemented by the US 11 years ago which allows countries selected by Washington to export a range of products duty free to the US. The region has been unhappy that the CBI excluded several categories. mainly textiles and clothing and leather goods.

Caribbean clothing exports to the US are under a separate programme, with quotas given for categories of products, most of these assembled in the region from textiles produced and cut in the US. Since the implementation of Nafta, Caribbean exporters have been saying that their US markets are threatened by a more com-petitive Mexico, and have been asking the Nafta partners to grant them parity.

"This is a substantial setback particularly for the Carib-bean textile and apparel indus-try," said Mr Peter King, chairman of the Caribbean Textile and Apparel Institute, a lobby for the region's industry.
"We had hoped that passage of
tha Perity Bill would bave taken place this year. There is simply too much at stake for us to give up at this stage."

# Market set to double for chips

The world semiconductor market will more than double in size by the end of the decade, to reach annual sales of \$331bn up from \$149hn this year, according to a report published by Dataquest, the market research company. Driven by strong growth in the personal computer sector, worldwide sales of semiconductor components are expected to increase by nearly 36 per cent this year, the market analysts said. Growth is, however, being constrained by production capacity.

Demand for semiconductor products is currently outstripping supplies, and the imbalance is expected to continue until the early part of 1997, despite record levels of investment in new plants and equipment.

"Our optimistic ontlook for the chip industry is only clouded hy the excessively long lead times for (production) equipment and scarcity of skilled employees," said Mr Gene Norrett, vice president and director of Dataquest's Worldwide Semiconductor Group. Louise Kehoe, San Francisco

#### Irish crafts earn I£100m

Ireland's craft industry, long associated with crofters' tweeds and hand made woollens, is estimated to have earned over 1£100m (\$62m) in 1994-1995, an increase of 25 per cent over the previous period, making it one of the fastest growing sectors

Irish crafts are a feature of the 1996 trade buyers fair, Showcase Dublin, which opened in the Irish capital this week. Showcase Dublin, one of Europe's most important craft and design fairs, was attended last year hy more than 8,000 exhibitors, and made sales of IF23.4m, up from around If8m in 1988. The new orders led to the creation of 730 new jobs. The craft industry is providing an important safety net in a period of high unemployment with between 10,000 and 12,000 people employed often in two or three person workshops in rural areas of the country. John Murray Brown, Dublin

Aerospatiale and partner Daimler-Benz Aerospace (Dasa) have won a contract to build two telecommunications nave won a contract to build two telecommunications satellites for Chinese operator Sinosat Communications. They will be launched by Chinese rockets. Agrospatiale said the export order book for the two companies totalled 16 telecommunications satellites, worth \$1bn. Sinosat is the project manager for EuraSpace, a joint venture between Dasa and China Agrospace. project manager for Euraspace,
and China Aerospace.

© CAE, the Canadian electronics group, through its German subsidiary, has won a C\$54m (US\$40m) contract to upgrade seven Tornado full-flight simulators for the German defence Robert Gibbens, Montreal

ministry. Robert Gibbens, M

■ Slemens of Germany said its public communications networks division has won contracts from Telefonica de Argentina, Telecom Argentina and other local companies to

supply more than 1m units of its digital switching system. The Argentine companies also awarded Siemens orders for more than 5,500km of fibre-optic line.

AREX, Munich
AREX Australia and Taiwan's EVA Airways will code share their services between Australia and Taiwan allowing each airline to sell the other's seats as its own. EVA has two return flights a week between Australia and Taiwan. Ansett, new to the international market, will start twice weekly flights next month.

A consortium of three South Korean companies, led by Posco Engineering and Construction, has been awarded a \$130m contract to build on a turn key basis a huge special steel plant in Egypt. The plant, with an annual capacity of 140,000 tonnes, will make special steel products in Sadat City, 90km north-west of Cairo. Construction will start in March. 1996 for completion by early 1999.

# Carmakers settle for second best

Michiyo Nakamoto on one market that defies Japanese invasion

South Korean car industry

known for passing up opportunities, but their reaction to South Korea's concessions on liberalising its car market has been closer to indifference than enthusiasm.

Despite last week's concessions to US and western car manufacturers, the Korean government has made no move to lift its long-standing ban against Japanese cars. Seoul cites as the reason for the ban Korea's trade imbalance with Japan. Although South Korea has gradually lifted import restrictions, it has maintained the ban on Japanese cars. "Japanese government offi-cials have asked the Korean

in Korea," says an official at a However, despite their aggressive expansion into overseas markets, Japan's car-makers have heen reticent ahout the obstacle blocking their way into a promising market just across the Sea of Japan. Their silence stems to part to

major Japanese carmaker. The car groups are also aware that Japanase cars would not be widely accepted in Korea, perhaps a result of the negative impact of the South Korean government's policy of promoting domestic For their part, Korean manu: facturers have not entered the Japanese market in any signifi-

cant way either. Although this

is mainly because Korean cars compete head-on with Japa-

nese cars, there is an atmo-

sphere of mutual consent to

stay ont of each other's mar makers have not been entirely idle in their pursuit of business While imports of their cars

in their neighbouring market. have been hanned, Japanese carmakers have formed links with Korean manufacturers which have given them an indirect entry into the Korean market. Nissan recently stirred controversy with a decision to transfer technology to Samsung for the production of cars. Production of an annual 65,000 vehicles, for which Nissan wili

scheduled to start in 1998 and Nissan will receive technology transfer fees as well as royal-Japan's second largest carmaker believes that this lon-

appropriate way to huild its Mitsubishi Motors holds a similar view. The Japanese car-maker has a 4.5 per cent stake in Hyundai Motor, while Mitsuhishl Corporation, which belongs to the same business group, holds a further 5.8 per

ger-term approach, working with local interests, is a more

MMC provides Hyundai with technology for a luxury car and is unlikley to want to export to South Korea, at least in the near term, a company representative points out. Honda, which has a technology tie-up with Daewoo, says that while recent US moves

makers to take another look at the Korean market, the obstacles remain formidable. Not only do Japanese cars have very little hrand recognition in the country. South Korean carmakers are extremely competitive in the low cost entry level market. Japanese carmakers export from a

higher cost base and will find

it difficult to compete, be says.

may encourage Japanese car-

The  $m_{\alpha\beta}$ an ideal i,

Patek Pin

their Cray

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# HOW MASTER CRAFTSMEN MAKE PATEK PHILIPPE A LEGEND OF OUR TIME.

From the time the world's first Guild of Master Watchmakers was founded in Geneva nearly four centuries ago, our city has been the undisputed capital of fine watchmaking. Ever since 1839, from one generation to the next, master craftsmen have enjoyed a privileged environment at Patek Philippe. In fact, Patek Philippe has been almost a guild itself, attracting the most accomplished and forward-thinking designers, watchmakers, gold-smiths, chainsmiths, jewellers, enamellers and engravers.

Today, Patek Philippe is the world's only complete watchmaker still capable of perpetuating all of these time-honoured crafts, setting a standard consistent with Geneva's reputation. For only the skilled and sensitive hand of the master craftsman can create, shape, polish and assemble mechanical components into a fine precision instrument.

Now, come spend a few moments with us to discover more about some of the master craftsmen behind Patek Philippe watches.

The designer combines avant-garde concepts with motifs that are Patek Philippe legacies. As he gives substance to an idea, he respects the values that endure from one century to the next. He makes hundreds of drawings until he captures a design that represents the artistic ideals of the age.

Patek Philippe ingenious watchmakers, such as our world authority on chiming and repeating watches, are often referred to as 'the men with the golden hands'. Scores of other rare skills are kept alive in our master watchmakers' talented hands, from balance poising to the building of the Calibre 89, the world's most complicated pocket watch.

Our goldsmiths adhere to the traditions of one of the oldest decorative arts, bringing together the skills of a jewellery maker, case maker, jewel setter and polisher.

Is it an illusion, you may ask, that the delicate tracery of a gold bracelet could be so supple, yet so strong? It's the magic of the chainsmith's art. Each bracelet is created entirely by hand. Each is one of a kind.

Our master jeweller is steeped in the great Geneva tradition of gemmology and further trained in Patek Philippe's own ideas of beauty and value. The brilliance of his work on the dial of a dress watch quietly reflects perfection.

The art of painting an enamel miniature on the cover of a pocket watch requires skills that only a few artists continue to practice today. We still decorate a bespoke pocket watch to meet the expectations of the most discerning collectors.

With tools handed down over the years, the master engraver creates a certain lustre and brilliance, especially when depicting movement or light on water. Only one or two enchanting scenes are created each year.

But there is yet another dimension to our story of master craftsmanship. Throughout its 155-year history, Patek Philippe has consistently distinguished itself by its pace-setting research, development and engineering, where many pioneering ideas take shape. In fact, Patek Philippe's influence in defining the evolution and progress of modern watchmaking is a legend in itself.

We were awarded our first patent in 1845, and as our master technicians set new standards of watchmaking in their quest for perfection, the list of patents continues to grow.

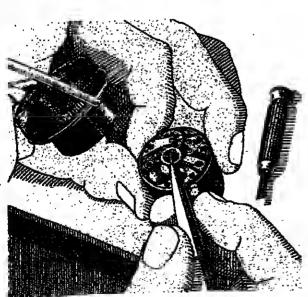
Our respect for the highest values of watchmaking tradition, creativity and perfection combined with the most advanced technological thinking will be passed on dutifully to future generations of Patek Philippe watchmakers far into the Third Millennium.

Perhaps that is why we are often called 'the guardian of Geneva's great tradition of horology'.

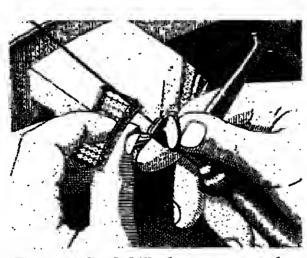
A Patek Philippe masterpiece, respected and treasured from generation to generation. Its destiny is to be a legend.



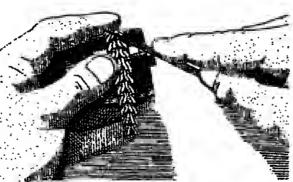
The master designer gives substance to an idea that says something about the enduring values of Patek Philippe.



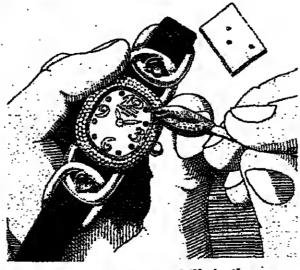
Patek Philippe's 'complete watchmaker', a title reserved for the legendary élite of their craft, meticulously finishes each part of a movement by band.



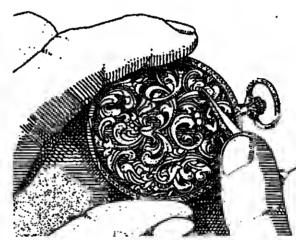
The specialised skills that were once the pride of Geneva's goldsmiths are kept alive in Patek Philippe's workshops.



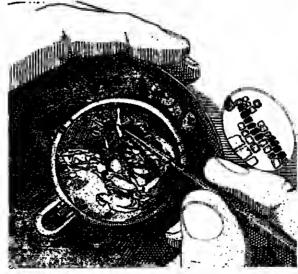
The chainsmith gives the most delicate tracery of a gold bracelet remarkable suppleness and strength.



The jeweller reveals his skills in the way be perfectly integrates each gem in its environment of precious metal.



Engraving the cover of a millimetre-thin pocket watch cover requires skills that are almost forgotten.



A miniature masterpiece in enamel takes six months of dedication. Almost all of the world's remaining enamellers work in Geneva for Patek Philippe.



Only Patek Philippe bas mechanical movements in regular production which have been awarded the coveted Geneva Seal-the highest mark of recognition in watchmaking.



The hand of a master craftsman alone can shape, polish and assemble the mechanical components of a perfectly functioning precision instrument.



# Medicare plan Modest under fire by health lobby

defeat of the administration's

On this occasion, the organi-

sation appears to be acting in

the conventional lobbyist's

manner by seeking to protect the interests of its members.

It claims that the complex

so-called "conversion factor",

by which fees are determined

for various medical procedures, was being reduced from cur-

rent levals at a time when

medical overheads continue

The independent Congression

nal Budget Office bas provi-

sionally concluded that the

Republican plan could achieve

its goal of cutting \$270m from the growth in Medicare costs

over the next seven years, but

that patients, through higher premiums, and doctors,

up bearing the brunt of the

taken a cautious approach to the proposed Republican

ing 37m Americans, although

public opposition, as measured

by the opinion polls, appears to

Typical bas been the Ameri-

can Association of Retired Peo-

ple, which lobbied hard for

the administration's plan

This time the AARP has

mostly sat oo the fence in the

apparent conclusion that it

was better to work with the

new Republican majority in

Congress than try and frus-

be on the rise.

Vested interests have so far

ms of a programme cover-

rough lower fees, would end

overall proposals.

American Medical Association, the bealth industry's largest pressure group, has registered strong reservations about a central ingredient of the Republican plan to reform Medicare for the

Senior AMA officials said that redncing payments to doc-tors, hospitals and clinics would be a major blow to the traditional fee-for-service Medi-

care programme."

Many providers of medical care, they said, might refuse to treat Medicare patients, forcing them into bealth maintenance organisations and other private insurance plans.

The Republican reform plan atates that patients will be guaranteed continuation of conventional Medicare coverage if they prefer, although it encourages them to consider alternatives, including HMOs and medical savings

accounts. The AMA's intervention, disclosed in the New York Times, could be as significant in the unfolding Medicare debate as it was last year in the ultimate failure of the Clinton

administration's far-reaching bealthcare reform proposals.

The AMA initially backed guaranteed universal bealth insurance, but later was a leader in the fight against forcing employers to provide such coverage on the grounds that the government was being accorded too big a role in the

Opposition to "employer trate it at every turn.

# rise in leading

The US government's main economic forecasting gauge rose modestly in August, the Commerce Department said yesterday, partly because of stronger manufactoring activity, Reuter reports from Wasb-

nomic trends six to nine months ahead, rose 0.2 per cent after a 0.2 per cent decrease in July. The index has risen in two of the past three months, suggesting a firmer underlying tone of economic activity after a weak second quarter. The index measures a basket

of economic indicators ranging from unemployment benefit claims to bnilding permits. Eight of its 11 components strengthened in August while three were weaker.

last month that it was turning

ence Board has 2,200 corporate members and specialises in business research.

The leading indicators in Angust were led by bigber orders for manufactured consnmer goods and by fewer claims for unemployment insurance. In addition money supply rose, the average working week was longer, and plant and equipment orders increased. There were more applications for building permits, higher stock prices and increased order backlogs at

# indicators

Prazil's soutbernmost state of Rio Grande do Sul has a voracious monster in its budget. For every R\$100 of tax reveoues raised, R\$81 goes in salaries and pensions for its bloated "Any politician today who has been a mayor or governor knows that Brazil's states and

Britto.

municipalities are ungovern-

able without cuts to the absur-

dities and privileges in public

administration," fumes the

state's governor, Mr Antônio

President Fernando Hen-

rique Cardoso has proposed a

number of reforms to belp governors bring spending under cootrol. Constitutional laws

preventing the sacking of civil

servants are to be reviewed

and some salaries are to be

capped. But the chaos in Bra-

zil's public finances, the result

of a decade of high inflation and bad government, will not

be easily rectified. Reducing

the states' payrolls may simply

turn the focus on an even more

Rio Grande do Sul's budget

problems are no different from

the rest of Brazil's. The state

has the advantage of being one

of Brazil's richest and, with the

well-regarded Mr Britto newly

elected as governor, there is a

chance that its public finance

Mr Cézar Busatto, the state's

finance secretary, says the new

About 20 people were found to

problems will be tackled.

difficult problem, their debts.

The index of leading indicators, designed to forecast eco-

The department announced

over the leading indicators report at the end of the year to the private Conference Board. which assisted in preparing the August report.
The New York-based Confer-

> government bas already cut some jobs and outlawed some of the abuses built up under previous administrations. be receiving moothly salaries of more than R\$15,000 (\$15,790), even though state law forbids civil servants earning more than the governor's salary of

R\$8,000 a month.



Cardoso: seeking reforms to curb spending

ment packages, 42 per cent of government spending goes on pensions as more and more workers retire early. Mr Mario David Vanin, mayor of the industrial town of Caxias do Sul, complains that the constitution forces him to pay teachers full wages if they want to retire, even though some are able to do so in their early 40s.

Mr Busatto's aim is to cut the state's 322,000 payroll by 15 per cent by the end of 1998. To do so, he needs Coogress to approve Mr Cardoso's reform proposals which, among other things, will allow governments to sack surplus workers for the

first time. This will be unpopular, especially in northern states where the government is in many cases the biggest employer

Brazil's civil service black hole

Changing the retirement rules will be just as difficult and separate reform proposals for Brazil's social security system are stalled in Congress because of opposition. "If we can reduce the physi-

cal numbers by 15 per cent and cut the higher salaries, the payroll costs will fall from 80 per cent to 60 per cent. I could then increase the investment rate on things like education. infrastructure and the police



Brazil's inflation fell to 0.74 per cent in September, the lowest figure since December 1973, according to the Economic Research Institute (Fipe), Reuter reports from São Paulo. In Angust, inflation

was 1.43 per cent.
A drop in food and clothing prices was the main reason for the fall, Mr Juarez Rizzieri, ident of the Fipe institute and co-ordinator of the Fipe index said.

force from 3 to 4 per cent of revenues to something like 25 per cent," says Mr Busatto.

The abuses in Brazil'a government machinery were able to continue unchecked only so long as inflation remained high. With inflation at 30 or 40 per cent a month until July last year, it was difficult to keep track of government spending. State governments were also able to push payroll costs down by paying salaries late, allowing inflation to reduce real wages.
With monthly inflation now

less than 2 per cent, the federal and state governments are discovering some unpleasant skel-etons in their fiscal closets. Probably the most disturbing relates to state government debt, which is ballooning dangerously because of Brazil's still high real annual interest rates of more than 30 per cent as a result of the government's continued tight monetary pol-By far the most pressing

problem is the states' tradeable

debt, mainly held in the form

of short-term securities. At the

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High-tech: low tax.

end of June, tradeable debt issued by the states totalled US\$33.9bn and was almost: totally owed by Brazil'a four most important states, São Paulo, Minas Gerais, Rio de Janiero and Rio Grande do Sul. Some are calling for federal government belp in restructur-ing their tradeable debt. They are suggesting selling state assets to pay off part of it and seeking federal government support to restructure another

Brazilian interest rates. Although the federal government says it is open to sugges tions, it has so far been slow to help the states.

portion into international debt

at international rather than

But, says Mr Busatto, state debts are "out of control". Rio-Grande do Sul has not issued any new debt in the last five years, yet its outstanding tradeable debt has grown from US\$1.3bn in December 1991 to US\$4.7bn last montb. The interest costs on this debt have reached R\$150m a month. Total government receipts in August were R\$266m.

"There's no way the state can afford to pay this debt, we can only roll it over. Our debt grown at an average annual rate of 31 per cent, exclusively because of the absurd interest rates we have to pay," he says.

Debate is raging in Washington over 'corporate welfare' for agriculture, reports Laurie Morse

# Cosseted US farmers may face \$1.7bn payback

sidy payments to the government this year, as market prices move above "target" levels that qualify the crop for government support. The development comes as debate rages in Washington over what opponents call "corporate welfare" for agriculture.

It is the first time in the history of the US wheat subsidy programme that such a pay-back will be required. Tight world grain supplies and rapldly rising global food demand have pushed the season average market price for wheat at the farm gate over \$4 per busbel. Under US farm law, that price is considered high enough to provide a fair income to producers and make subsidy payments unneces-

Maize and other feed grain prices will also top their subsidy targets this year, according to US Department of Agriculture projections, leaving the US Treasury expecting a total of \$1.65bn in advance grain subsidy refunds from farmers by late next summer. The advance payments were

made last March, based on Dapartment of Agriculture price projections that under-estimated the strength of tha market.

The target price system is a cornerstone of existing US farm laws that are up for revision in Washington. For nearly 60 years. US agriculture policy bas sought to provide an income safety net to farmers during lean years, and leave them to market forces when prices are high.

However, reforms championed by the Republican leadership would guarantee subsidy

be forced to repay next seven years, regardless of \$608m in advance sub- how high or low market prices move. This would cut \$13.5bn from the farm budget during the period, but Democrats have sought to block the measure. known as the "Freedom to Farm Act." because of the temporary windfall it would create for farmers currently enjoying their strongest markets in two

The Democrats have been succeeding because they have been joined by a handful of rebel sonthern Republicans who seek to preserve generous subsidies cultivated over many years for southern commodities such as rice, cotton, and

Cotton and rice producers can expect a second subsidy cheque of \$800m in price supports

This year, for example, while prices for cotton and rice are also soaring, producers will be allowed to retain their advance subsidy payments. They can even expect to receive a second government subsidy cheque total of about \$800m in price

They will get to "double dip", where grain farmers will not, because target prices for cotton and rice have been set artificially high. Price support programmes for other southern commodities, such as peanuts, have also been liberally drawn. With high market prices and

TS wheat farmers will diminishing basis over the subsidy payments already secure, southern farmers have nothing to gain from "Freedom to Farm".

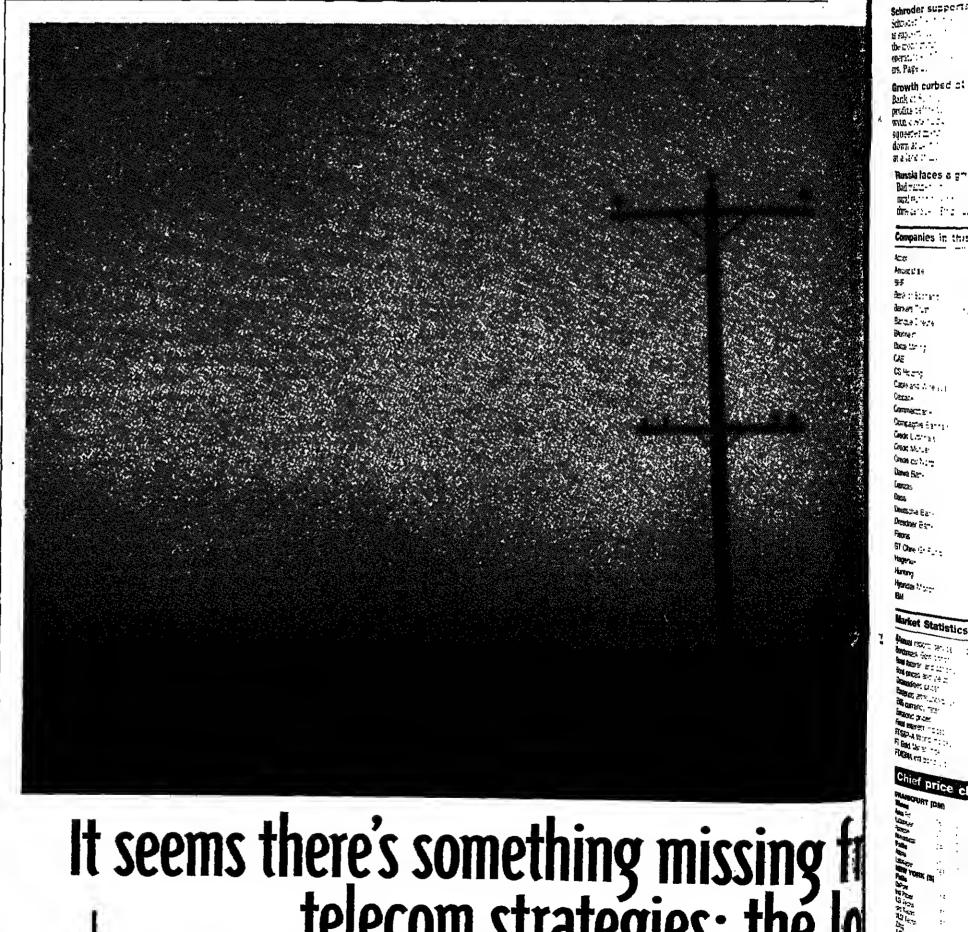
This regional split has cost Mr Pat Roberts, the House agriculture committee chairman and author of the "Freedom to Farm" act his chance to direct this year's farm policy overhaul from within his own committee. Last month, admitting an impasse, he promised to transfer the farm subsidy debate to the House budget committee and said be would like to see "Freedom to Farm" offered to the full House floor, where he believes it will get

strong majority support. Mr Richard Lugar, Senate agriculture committee chairman, managed to break a similar impasse on his committee before this week's recess, passing by a narrow margin a compromise bill that also cnts more than \$13bn from the farm budget, but leaves most of the existing price support programmes, including the target price system, intact. Its savings are achieved by reducing the number of acres available for subsidy payments.

The wrangling in Washington will have no impact on this year's subsidy payback by grain farmers. They will be given a choice of writing a cheque for the government, or foregoing a portion of next vear's subsidies.

Although grain prices are forecast to remain high through next season, Department of Agriculture policy makers say that given just a normal world crop next year, wheat prices are projected to fall back below \$4.

"We won't have any troubl getting the [\$1.65bn] back," said one policy analyst.
"They'0 pay us so they can get



# It seems there's something missing for telecom strategies: the lo



At Globolstor, we believe that in rolling out o mobile sotellite network to the world, there's no need to reinvent the wheel.

So while others seek new routes over ond oround existing service providers, we've decided to take o different poth.

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## Killer Hurricane Opal threatens Florida coast

Hurricane Opal became a powerful storm early yesterday as it raced toward the coast of northern Florida with 150mph winds, forecasters said, Reuter reports from Pensacola.

Opal'a heavy rains were blamed for at least 10 deaths in the Mexican states of Cam-peche and Tabasco.
Thousands of residents of

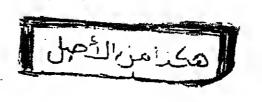
Florida's northern coast fled their bomes, jamming an inter-state motorway in their haste to move inland to shelters and hotels. Even the local newspa-per was forced to evacuate its office and printing plant.

Forecasters said they were concerned about Opal's eye, which had shrunk during the early morning hours to a mere 10 miles wide from 30 miles. A smaller eye usually indicates a more powerful and intense

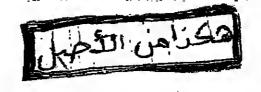
Opal surprised forecasters by growing rapidly from a mini-mal hurricane on Tuesday to a dangerous category four storm as it swirled over the warm waters of the Gulf of Mexico. maximum sustained winds surpassed those of the deadly Hurricane Andrew. which wrought destruction on

The national burricane centre issued a hurricane warning from Mobile, Albama. to Anclote Key, Florida. Although forecasters were

unable to pinpoint where Opal was most likely to roar ashore, residents of the Florida Panhandle were braced for what may be the third hurricane of the season to strike them. Allison limped asbore near Apa-lachicola Bay in June with barely hurricane-strength winds, and Erin struck in early August, causing \$12m in damage to the Pensacola area.







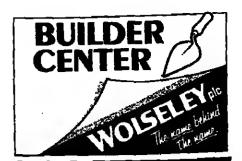


FINANCIAL TIMES

# **COMPANIES & MARKETS**

THE FINANCIAL TIMES LIMITED 1995

Thursday October 5 1995



#### IN BRIEF

#### **Banque Directe** recruits 16,000

Banque Directe, the French telephone bank owned by the Paribas group, has recruited nearly 16,000 customers during its first year of operation. Mr Bernard Auberger, chairman, said: "The lesson is to produce a simple product that responds to clients'

Meanwhile, Crédit Mutuel, France's fifth largest banking institution, reported strong growth in deposits and loans in the first eight months.

Orkia profits leap 44%

Orkla, the Nordic region's biggest food and drinks producer, saw a 44 per cent jump in pre-tax profits to NKr1.4bn (\$222m) in the first eight months of

Argentine oil group sheds the flab Mr Nells Leon, president of YPF, Latin America's largest private oil group, has transformed the Argentine company from a "fat man weighing 500 kilos... into an athlete able to run the 100 metres in nine seconds flat". Page 18

Japanese broker launches a lottery Nomura Securities, Japan's largest broker, plans to revive business by launching a lottery tied to investment accounts, with the lure of monthly prizes of up to Y50,000 (\$493). Page 19

High-tech: low take-up The Jakarta Stock Exchange is now equipped with state-of-the-art technology, yet potential domestic investors have shown little interest. Page 19

Lucas hopes US will lift ban Lucas Industries, the UK aerospace and automotive company which has just agreed to pay \$88m in dam-

ages to the US Department of Defence over contract breaches, expects to have a bar preventing it from bidding for further DoD work lifted sbortly. Page 20 French arm drags down Blenheim Interim pre-tax profits at Blenheim Group, the exhi-

bitions organiser, fell 31 per cent after losses at its

French operation. However, the group made posi-

tive comments about trading in France in the second half. Page 21 Schroder supports MBO at Tarmac Schroder Ventures, the private UK equity investor, is supporting a management buy-out regarded as the front runner to purchase the UK bousing

operations of Tarmac, one of the UK's higgest build-Growth curbed at Bank of Scotland Bank of Scotland reported nearly flat operating profits before provisions for bad and doubtful debts, with costs rising and income suffering from squeezed margins. The bank's shares closed 7p down at 240p as analysts said they were concerned

Russia faces a grim reaping Bad weather and lower investment in the agricul-tural sector has produced Russia's worst harvest in three decades. Page 22

at a lack of underlying growth. Page 21.

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#### Chief price changes yesterday

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Lateracytr	565	+	20	BIC		Ξ	11
Porache	700	+	10 10	CEP	954		
Fineum netal	240	+	10	Cred Lyon	288.5	-	9.9
Palls			12	Gen des Saux	459.8	-	18.2
Altama ·	831	-	20	TOKYO [Yes			
Labraeyer	565	-	40	Rises			
NEW YORK	<b>5</b> )			Fance	4800	+	320
Falls			1%	Mir Signal	777	+	32
DePort	8474	-	1%		2170	÷	170
inti Paper	39	-	6	Tokyo Steel	2110	•	
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Utd Techn	83%	-	314	Chugal Plum	990	_	
VLSI Techn	284	-	1%	Harzanna Corp	432	-	
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LONDON (Pe	ge <del>4)</del>			HONG KONG	gocs)		
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locatethes Tch	120	٠	26		20.75		1.10
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The Scad Cop	1012	+	7		113.0	+	9.0
Falls			1	Spiant Wrid	70.0	:	45
FOUR SHEEDING	16	-		Thei Striy 8	(O'O	+	**
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PARES (FFT)				Siterin	30.25		275
Rises			-02	Thei Carpet	16.25	_	1.25

# Franco-US drugs group is expected to add up to 20p to the 240p a share cash offer RPR poised to raise bid for Fisons

By Motoko Rich in London

Rhone-Poulenc Rorer, the Franco-US drugs group, was last night poised to raise its £1.7bn (\$2.6bn) hostile bid for Fisons as the UK pharmaceuticals group made its final plea to shareholders.

RPR declined to comment yesterday, but it is understood that it would be prepared to meet market expectations and add about 10p-20p to its 240p a share cash bid. It must make a final bid by tomorrow.

Fisons' shares rose 2p, to close at 259p, yesterday. The shares have rested above the offer price since the bid was launched

Mr Stuart Wallis, Fisons chief executive, reiterated that the group's resistance to RPR's bid was a matter of price rather than independence. "This whole battle has been fought on a question of value. It does not reflect a desperate desire to retain our independence. If somebody - RPR or any one else - does come along and make the right offer then it would be right and proper for us to recommend it to share-holders."

Mr Wallis, who has 888,000 share options and stands to make £1.01m at the 240p a share offer price, declined to say what the right offer would be. But it was underommend an offer around 270p-280p per to a multi-dose dry powder inhaler - such

However, it is believed that if RPR were to raise its offer to 250p-260p, Fisons would continue to fight the bid.

Last Friday marked the last date for Fisons to disclose new financial information. Yesterday, it wrote to shareholders, questioning RPR's strategy if the bid were

In the letter, Fisons asked if RPR would be able to meet its stated aim of "becom-

ing a major player in the asthma market ... if it does not acquire Fisons" Tha UK group questioned RPR's asthma

as the Ultrahaler being developed hy Fisons. The UK group queried RPR's ability to develop an HFA 134A propellant an inhaler system which is intended to replace ozone-depleting CFCs.
Fisons further emphasised the impor-

tance for RPR of the UK group's marketing infrastructure in Japan and Europe. RPR said yesterday: "Respiratory drugs represent 10 per cent of sales at RPR. It is certainly an area that the company has identified as important and Fisons is the best fit. But if the bid was unsucces

# phone deal

By Alan Cane in Geneva

NTT, the world's largest telephone operator, and Cable and Wireless of the UK bave formed a partnership to promote a new mobile phone outside the Japanese market, where it has

The Japanese telecoms group will announce on Monday the formation of a four-way joint

Hong Kong Telecom – a snbsidiary of C&W – and Itochu, formerly C.Itoh. Equity in the venture, provisionally called PHS International, is said to be equally spread between the four. The initial investment will be about \$4m.

dardise personal communication phones it faces competition from the European GSM standard.

The alliance will chiefly be a marketing organisation for the Personal Handyphone System (PHS), Cable and Wireless spent

tively inexpensive, Sound quality is excellent and they are capable of transmitting data, fac-

The handyphones operate from a base station in the home, rather like a conventional cordless phone, but can be used while walking in towns. They are not suitable for use in cars.

that the company's partnership strategy is ill-directed, may argue that the new venture again does not fit into a clear and simply articulated strategy for the group. When breaking up is hard to do

C&W in mobile

proved a success.

It is collaborating with C&W.

NTT said PHS represented the group's efforts to form partnerships around the world to stantechnology. In digital portable

£10m (\$15.5m) in Fehruary to secure a 5 per cent stake in NTT's PHS operations. The company started marketing the system in Tokyo and Hokkaido in July and bas about 100,000 cus-Personal handyphone systems are small, light and compara-

simile images and video picture in addition to voice.

The system is similar to the ill-fated telepoint phones which failed in the UR. However, these phones have proved popular in densely populated areas in Asia and France. PHS systems are digital, rather than the analogue technology featured in telepoint.

PHS phones have only been sold in Japan. The new venture will begin by tackling Asian markets. There are no plans to offer PHS in the UK. C&W's critics, who have said

#### the opportunities to build rather than buy stood yesterday that the board could rec- drug pipeline and its ability to gain access Escom founder buys telecoms group

By Michael Lindemann in Bonn

Mr Manfred Schmitt, the founder of Escom, one of Europe's largest personal computer production and distribution companies, yesterday expanded further into the telecoms business by buying Hagenuk, the loss-making German telephone manufacturer.

Preussag, one of Germany's leading steel and engineering companies, sold the company for an undisclosed sum. The sale marks Preussag's final retreat from telecoms, a business it

Reputation on

the line as the

depth of the animosity

depth of the animosity between Bankers Trust

and Procter & Gamble should

have been dispelled on Tuesday.

company won legal permission to proceed with a complaint against

the bank under the US's antiracketeering legislation - a

severe blow to the bank's reputa-

tion. The year-old battle over two

loss-making derivatives bought

by P&G had just turned much

Bankers Trust, meanwhile, was

happy to point out P&G's sbort-

comings, evidenced in documents

made public for the first time.

Those 300,000 pages of evidence

are likely to provide ample

ammunition for mudslinging on

The fate of Bankers Trust will

depend on more measured judg-

ments than these. It hangs on the

views of two men: Mr Benjamin

Civiletti, a former US attorney

general; and Mr Derrick Cephas.

formerly New York state superin-tendent of banks.

At the request of a bevy of reg-

ulators - the Federal Reserve,

the Securities and Exchange Commission and the Commodi-ties and Futures Trading Com-

mission - the two bave been investigating Bankers Trust's

derivative activities since the

middle of April. That examina-

tion is due for completion by the

middle of this month. The two

investigators are believed to have

indicated that they would not

complete their deliberations until

The immediate focus of the

review is to assess bow deep the

bank's laveraged derivatives

problems ran. The fate of a band-

identified with the contracts sold

to P&G, among others, will

depend on the outcome.

ful of executives who have been

more ugly.

mud keeps flying

The US consumer products gest New York trading houses.

flirted with until the investments

turned out to be too large.

Mr Schmitt, who still bolds 51
per cent of Escom, said the Hagenuk purchase was "a private matter" not directly linked to Escom. but noted there were clearly overlaps between telecoms and the chain's present business which is 80 per cent dominated by PCs.

"The PC is ultimately a tele-coms product," Mr Schmitt said. "In years to come we are going to see these two areas grow closer and closer together.

will go far. Among the issues left

open are the shape of the bank's

senior management team, and

even its future as one of the big-

Bankers Trust has maintained

from early on that its problems have been limited to one trading

desk and a handful of employees.

to, exploited and cheated" by

Bankers Trust adds an extra

twist. However, these allegations

remain limited to the leveraged

gence as a leader in the deriva-

tives markets, will retire by next

summer. Mr Tim Yates, chief

financial officer, is due to take

early retirement next year at the

sen heir, Mr Eugene Shanks,

appears in the balance. Mr

Shanks, the bank's president, is

widely seen as a strong candidate

for the top job - though his career could be derailed if the

Civiletti/Cepbas investigation

raises doubts about his role in

past mistakes. "I'm sure they'll follow it up the chain of command as far as they feel they

need to go," said one bank offi-

Frank Newman, a former deputy US Treasury secretary. He is a

former chief financial officer of

BankAmerica, and has already

taken charge of all control,

finance and administrative func-

be looks well positioned.

Waiting in the wings is Mr

The future of Mr Sanford's cho-

estions surround a num

ber of senior posts. Mr

Charles Sanford, the

chairman who masterminded Bankers Trust's emer-

derivatives area.

age of 48.

P&G's claims that it was "but

The Hagenuk purchase comes just days after Escom said it planned to sell a 13.5 per cent stake to RWE Telliance, the telecome subsidiary of energy-based conglomerate RWE, which plans to use the chain's 145 shops in Germany to market its telecoms

Mr Schmitt, 44, said Hagenuk had a range of innovative new products which could be marketed worldwide.

services. Escom bas 450 shops

across Europe.

These include a new phone, based on the worldwide Global

Richard Waters reports on the outlook for Bankers Trust, embroiled in a legal battle

tions or GSM standard, which could be used both as a mobile and a conventional fixed-link Hagenuk is developing a new Digital European Cordless Telephone (DECT), a standard which may be introduced in Germany

Standard for Mobile Communica-

for use in local telecoms traffic. Mr Schmitt hoped to sell the Hagenuk phones directly to Deut-sche Telekom and other telecoms operators but the phones might be available through the Escom

DM80m. It has recently disposed of a variety of non-telecoms busi-Alongside Siemens, it is the

sales last year of DM400m

(\$280m) but a loss of around

only other German manufacturer of mobile phones. It used to be one of the main suppliers to Deutsche Telekom, the German state-owned operator, but was hit wban the German market for phones was liberalised and when the market moved from analogue to digital systems.

When risk turns sour Until Mr Civiletti and Mr nity to buy a powerful US trading

institutions on the cheap. Or a

the bank's financial performance has at least stabilised after a disastrous start to the year. It bounced back from a first-quarter loss into profit in the second three months. Third-quarter figures, due in two weeks, should show that improvement continu-ing, thanks to cost-cutting and a buoyant US bond market.

Bankers Trust's involvement in It also continues to be a leader

in arranging sub-investment grade financings and its proprietary trading activities mark it out as one of the powerbouses in fixed income. It is no wonder that a wounded

Bankers Trust is being talked of as a potential takeover target. The US's rampant bond rally has belped the bank's shares recover from their spring slump but they have failed to match the bounce of other US banks' shares.

the market for the most complex - and profitable - derivatives in the US now remains minimal, but it continues to make headway in European derivatives and the emerging markets, one rival says.

Wall Street believes a Euro-

tions. Should Mr Shanks stumble. pean bank, such as Deutsche Bank or Union Bank of Switzer-While questions over the top executives remain unresolved, land, may see this as an opportu-

#### Cephas pass judgment, it seems unlikely that any prospective US super-regional bank may see it as a chance to gain a stronger boyer would want to proceed. foothold in the US and interna-Lex, Page 24; Fresb evidence, tional capital markets. Page 32 Expertise in

SWEATER SHOP £150,000,000 Management Buy-out/Buy-in Senior Debt and Working Capital Facilities Arranged and Underwritten by NatWest Markets, Acquisition Finance

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A G A K K L L L L E E E

#### GT Chile takes complaint on Regent to UK regulators of foreign investment capital.

By Roger Taylor In London

late December.

The board of GT Chile Growth Fund has accused Regent Kingpin, the investment management company trying to take control of the fund, of making inaccurate statements and has complained to financial regulator Imro.

Regent Kingpin is asking shareholders to vote in favour of a motion putting them in control of the fund, which has net assets of £517m, after which it would return cash to sharehold-

The board has put forward its own proposals, which would allow investors to cash in a just third of their shares initially. The two managers are arguing over whether Regent's proposed liquidation of the fund complies

with Chilean law, which lays

down rules for the repatriation

The row came to a head yester-

day, when Regent announced that the Chilean Superintendency, which is responsible for investment schemes, had sent it a letter stating that its proposals needed no authorisation as long as they complied with Chilean law. Regent said this was equivalent to giving the scheme approval

However, the Superintendency said it did not give approval to schemes and its letter did not imply it was legal. Mr Peter Stevens, chairman of

GT Chile Growth Fund, said it was wrong for Regent to imply that the scheme had been given a green light since the Superintendency had the power to block repatriation of funds at a later

He added: "In our opinion they have destroyed what little credi-

bility they had and should not be entrusted with our shareholders' funds."

In an earlier letter, the Superintendency had said that the GT Chile board's proposals did conform with Chilean law on invest-Regent said yesterday this let-

ter merely used the board's plan as an example of the type of scheme permissible and applied equally to its propos-Shareholders must vote in the

GT says that a clear majority of sharebolders have now indicated support for its proposals. Regent says it has the support of investors holding 34.6 per cent of

next few days in favour of one or

Imro confirmed it had received a complaint from GT Chile, which it would be investigating.

Global Leveraged Financing en elektroniak ili karan elektroniak elektroniak elektroniak elektroniak elektroniak elektroniak elektroniak e £115,000,000

Management Buy-out Senior Debt and Working Capital Facilities Nat West Markets, Acquisition Finance January 1995 ICAP Institutional Capital \$13,000,000 Recapitalisation Facilities Structured and Arranged by Nat West Markets, Acquisition Finance

issued by National Westminster Bank Plc, regulated by IMRO

#### Sales rise fails to lift Saga Petroleum

Saga Petroleum, Norway's largest independent oil company, yesterday unveiled a 14 per cent fall in pre-tax profit, from NKr1.4bn to NKr1.2bn (\$190m) for the eight months to August 31. The figure was struck on sales of NKr4.2bn, against NKr3.9bn. Operating profits were NKr1.3bn compared with NKr1.01bn. Net profit of NKr352m, down from NKr521m,

worked out at earnings per share of NKr2.7 against NKr4.1. The company said oil sales volume for the period was 25.3m barrels compared with 23m a year earlier. The average sale price was NKr109, down from NKr111 in the first eight months

The fall was mostly attributed to a one-off NKr100m loss on extraordinary items, compared a gain of NKr350m a year earlier, when Saga enjoyed positive currency effects on its dollar debt and capital gains on its sale of shares in Elkem. AFX News, Oslo

#### IBM in Swedish venture

IBM of the US said yesterday it was setting up a joint project with the Swedish software group IBS. The idea is to produce commercial applications of the emerging object-oriented technology which aims to achieve cheaper and more efficient software development.

Object orientation is a new system for writing software based oo the creation of different application components which can be run in different computer environments. The components can be fitted together like building blocks - or detached - to make customised systems for users. IBM said the venture with IBS, in which IBM is a 10 per cent

owner, would be based at IBM's laboratory at Boeblingen in Germany. "This is ooe of IBM's most important development projects within the software area," said Mr Steve Carter, IBM manager of application frameworks. IBM is spending some \$25m on developing its object-oriented technology strategy.

#### Danzas sells travel division

Danzas Holding, the Swiss freight forwarding group, is selling its travel division to fellow Swiss travel groups Kuoni Reisen and Imholz, a unit of retailer Grands Magasins Jelmoli. Danzas said it wanted to focus its business oo its core freight

It said Kuoni was buying all the shares in the travel division, Danzas Reisen, retroactively effective as of January 1995. Kuoni will take over 39 Danzas travel offices, mainly in the business travel sector, for integration into its own husiness travel section. Imholz will huv 18 other Danzas offices, mainly active in holiday sales, for its own strategic focus on tourism travel. Danzas said its French travel unit. Danzas Voyages (France) was not part of the sale and that it was seeking a separate solution there. Reuter, Zurich

#### Swiss Re, CS Holding expand

Swiss Re, the world's second largest reinsurance group, and CS Holding, the financial group built around Credit Sulsse, bave established two funds in Bermuda to make equity investments in insurance companies worldwide. They have provided \$500m in equity for the two closed investment partnerships, Securitas Capital Partners I and Securitas Capital Partners II, as a step to participating in a global insurance merchant banking programme. The funds are part of a strategic alliance agreed in December. Ian Rodger, Zurich

PaineWebber International

PaineWebber Incorporated

**CS First Boston** 

Doft & Co., Inc.

Parker/Hunter

Schroder Wertheim & Co.

Ladenburg, Thalmann & Co. Inc.

Raymond James & Associates, Inc.

Fahnestock & Co. Inc.

#### INTERNATIONAL COMPANIES AND FINANCE

By Andrew Jack in Parls

Union des Assurances de Paris, the French insurance group, has reported net income down 5.5 par cent to FFr806m (\$164.1m) for the first six

months of the year. A decline in capital gains from the sale of assets compared with the first balf last year pushed down income in spite of flat sales, at FFr81bn. Life assurance progressed in all continental European markets - growth was particularly strong in France - but turnover in the division fell 8.4 per cent, largely because of the oegative result in the UK, accentuated by a worsening in

Sun Life, the UK subsidiary of which it obtained full control earlier this year, suffered from weak conditions, which UAP said was hurting the eotire UK life assurance mar-

Non-life business turnover across the group rose 7.4 per cent, or 2.8 per cent in constant terms, before taking into account the consolidation of Provincial, tha UK company

the start of this year. Net income from all insurance activities rose 7 per cent to FFrL8bn. Banking activities sharply improved, with a FFr438m loss in the first half

profit of FFr61m. UAP said Banque Worms was continuing its restructuring in line with its budget. A sharp drop in capital gains turned a net income of FFr142m in the bolding com-pany last time into a loss of

FFr454m. Amortisatioo charges

rose FFr66m to FFr575m. UAP said there had been

last year converted into a

technical results in non-life business, and in its efforts to reduce the costs of intermediation in both life and non-life business. However, it stressed that the volatility of the financial markets - notably in France - made implementing its policies and improving results difficult.

In a veiled reference to the extraordinary provisions made last week by rival Assurances Générales de France, Mr Jacques Friedmann, chairman, said UAP had no need to make



1994

Source: FT Extel

# **Banque Directe**

Banque Directe, the French telephone bank owned by the Paribas group, yesterday announced it had recruited oearly 16,000 customers in its first year of operation, triggering optimism about the potential for broader applications of providing financial services by telephooe in the country.

Mr Bernard Auberger, chairman of Banqoe Directe and of Credit du Nord, a Paribas sub-sidiary, said: "We are very content. This is in line with our predictions. The lesson is to produce a simple product that responds to clieots' oeeds."

Banque Directe bad 15.878 clients by the end of September, and should have 20,000 at the end of this year and at least 40,000 by the end of 1996. Mr Auberger said he was still aiming for profitability within the next five years.

The company said the number of customers was in line with those recruited by First Direct, the UK telephone banking group owned by Midland Bank, during its first months of operations. This was in spite of scepticism that a similar rate of uptake could he achieved in France.

However, Mr Etienne Pflimlin, chairman of Crédit Mutuel, the French mutual bank, claimed yesterday that the number of customers was below the level that Banque

The Robinson-Humphrey Company, Inc.

The Robinson-Humphrey Company, Inc.

Dillon, Read & Co. Inc.

Goldman, Sachs & Co.

McDonald & Company

Sutro & Co. Incorporated

Prudential Securities Incorporated

Arnhold and S. Bleichroeder, Inc.

Gordon, Haskett Capital Corporation

Pennsylvania Merchant Group Ltd

Janney Montgomery Scott Inc.

All of these securities having been sold, this announcement appears as a matter of record only.

6,182,113 Shares

Common Stock

1,075,150 Shares

This tranche was offered outside the United States and Canada.

5,106,963 Shares

The Carbide/Graphite Group, Inc.

**Lazard Capital Markets** 

Lazard Frères & Co. LLC

Donaldson, Lufkin & Jenrette A.G. Edwards & Sons, Inc.

Deutsche Morgan Greufell

Smith Barney Inc.

This tranche was offered in the United States and Canada

Oppenheimer & Co., Inc.

Directe had predicted when it launched its service in September last year.

Ms Claude Gasné, managing director of Banque Directe, said clients' deposits ran to several bundred million francs, and the average amount held in accounts was 1.5 times the banking French average.

She said the company had broadened its initial range of services by about 10 to 40 still far fewer than high street banks, in a deliberate attempt to focus on the options most demanded by clients. It oow employed 77 people.

Other services were planned, and the bank was experiment-ing with the use of video-telephones and a range of multimedia applications.

Banque Directe had initial sbare capital of FFr100m (\$20m), and is 5 per ceot owned by Credit du Nord and 95 per cent by Compagnie Bancaire, two subsidiaries of Paribas, It speot FFr40m during its first year on advertising, and two weeks ago launched a renewed publicity campaign which expected to cost FFr9m.

Among the company's clients, the average age is 35; 68 per cent are men and 63 per cent come from professional classes. Half live in Paris and most in urban areas. About 60 per cent said they were very satisfied with the service and only 1 per cent had decided to close their accounts.

September 1995

# Crédit Mutuel enjoys solid 'content' with start growth in deposits, loans

Crèdit Mutuel, the mutual which is France's fifth largest banking institution, yesterday reported strong growth in deposits and loans during the first eight months of the

The group does not provide detailed interim financial information. However, it said total deposits had risen 8.5 per ceot to FFr475.6bo (\$96.9bn) in the period to August 31 this year. Banking deposits rose 11.7 per cent to FFr320bo, and revenues from the sale of financial investment products by 2.3 per ceot to FFr155.6bn. Loans rose 8 per ceot to FFr223.8bn.

At the end of August, 28 per ceot of deposits were beld in Livret Bleu, a savings account which carries tax deductions,

accounts designed for future mortgage borrowers. Among its loans, 45 per cent were for bouse loans, 25 per cent for business and 18 per cent for consumer borrowing.

For 1994, Credit Mintuel reported net income of FFr1.6bn on banking income of FFr17.2bn, after taking provisions against donbuful debts of FFrl.4bn. lt had a solvency ratio of 15.9 per cent.

Mr Etienne Pflimlin, chairman, said his objective was to make the bank the primary ooe for its customers, in a country in which many individuals bold accounts with a range of different banks. He said the bank was considering launching a telephone banking service, but no final decision had yet been taken.

He confirmed that - in line with a growing number of French hanks - its mutual organisation covering Brittany was to begin selling non-life insurance to its customers from the start of next year, alongside the existing life assurance products.

· Accor, the French hotel group, said its results in the domestic market were improving, in spite of a weak hotel sector, blamed on terrorist threats and reactions to French nuclear testing. AFX News reports from Paris.

"Our results are improving in France, where we are beginning to benefit fully from synergies with Wagons-Lits," said co-chairmen Mr Paul Dubrule and Mr Gerard Pelisson in an interview with Les Echos, the business daily.

#### Orkla lifts eight-month earnings to NKr1.4bn

By Christopher Brown-Hume in Stockholm

Orkla, the Nordic region's biggest food and drinks pro-ducer, has announced a 44 per-cent jump in pre-tax profits from NKr977m to NKr1.4ba (\$222m) in the first eight months of 1995.

The Norwegian group has ust completed a SKr4.25bn purchase of the food operations of Volvo, the Swed-ish vehicle manufacturer, while entering a joint venture with Volvo combining their beverage activities.

The agreements have been modified to meet the concerns of competition authorities in the European Commission, Norway and Sweden. All authorities have now given the deal their blessing.

Profits rose in spite of a fall in operating revenues from NKr13.36bn to NKr13.25bn following disposals. Operating profits climbed from NKr918m to NET1.15bn, helped by a NKr114m capital gain.

The group's operations showed a stronger trend in the second four months, helped by shifts in product mix and efficiency improvements within beverages. Operating profits in this period rose from NKr629m to NKr715m and pre-tax profits from NKr878m to NEr811m.

Procordia Food and Abba Seafood, Volvo's food businesses, will be included in Orkla's figures from October.

# Plugging in to electronic banking

Germans are moving quickly into high-tech, non-branch services

ermany's banks are up r to something new. In a the world's most dense banking networks, they are tempting customers with services which need no branches and few staff and rely on technol-

Electronic banking is taking off in Germany, driven by demand and cost pressures. While German banks have far to go to match the penetration of direct banking in the US and UK, they are proceeding faster ors in conti

ogy rather than personal con-

tal Europe.
All big German banks have some form of non-branch service, mostly involving telephones but with personal compoters gaining in importance for current account and discount broking busioess. If Microsoft's Windows 95 operating program stimulates home computer use, electronic banking could receive an extra

impetus.
"It's very important that software is developed which overcomes people's hesitancy about new technology," says Mr Heinz-Jörg Platzek, a director of Dresdner Bank.

Intuit, a US rival of Micro-soft, is helping to provide just that. It is talking to banks about using its Quickeo financial software to facilitate customers' digital access to their oetworks. Banks have different online systems and are likely to give customers Quickeo - a best-seller in the German software market and adapted for use with leading banks - or sell it to them cheaply.

Mr Dieter Neujahr, central European director of intuit. which has operated in Germany sioce mid-1994, says there are about 300,000 Quicken users in Germany and the number is rising fast. "It has just been sucked up by the market. Most people say they want it for home banking

First off the mark in Ger-many with direct banking was Commerzbank. It began Comdirect with share capital of DM50m (\$34.7m) in February to woo customers wanting to carry out deposit account, investment and other

transactions quickly and cheaply without advice. Citihank of the US is also starting a direct banking service in Germany.

However, a higger push came with the launch on September 25 of Deutsche Bank's Bank 24, its direct hank for a whole range of day-to-day banking and stockbroking services. Its target is 500,000 customers in four years, of which it hopes about 80 per cent will come from outside the parent bank. Bank 24, with capital of DM120m, will be based in Bonn

Analysts estimate its pro motional campaign could cost up to DM50m, with the aim of attracting as many private customers to the new service as possible to gain cost advantages. "What they hope to achieve, if they get 500,000 customers, is a cost base well below the competition," says Mr Andreas Schmitt, analyst at Barclays de Zoete Wedd in Frankfurt.

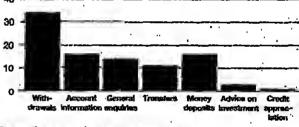
He calls the move to electronic banking "a sign of the sbarp pressure on margins from all sides which banks are attempting to combat as best they can". Profits on basic lending and deposit business have been squeezed and banks want to trim their costly branch networks and use them more afficiently.

"Baoks face a buge shake-up," says Mr Berot Weber, a director of Comdirect, which is expanding its services. "It will be evolution, if not revolution. The age of bome banking is upoo us." Comdirect will be accessible by PC next year, when it plans to be oo the internet, the worldwide computer link-up. Bayerische Vereinsbank, intending to start a direct bank in 1996. bas linked with Microsoft's online network.

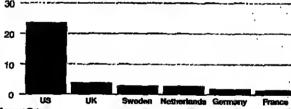
Comdirect, based oear Hambury with 120 staff, has about 23,000 customers and plans to double this by the year-end. It aims for 250,000 customers by 2000 and theo be in profit. Mr Weber says only 15 per cent of Comdirect's customers come from Commerzbank, Many from small savings banks.

**Banking behaviour** 

ions for Germans going to the branch, %



Transactions executed over the telephone, %



"It was an advantage to be the first," he says. But the start-up of Bank 24 and others, while opening up the market, will make it harder and costlier to attract new business

German banks estimate the potential market for direct banking is about 6m people, based oo the experience in the US and UK. Younger people, less wedded to traditional-style banking and more in tune with technology, are a particular target. "One of the banks' aims is to use electronic banking to try to get younger, more up-market customers," says Mr John Leonard, banking analyst at Salomon Brothers. Ahout 20 per cent of German bousebolds

Dresdner Bank, which does not have a direct bank but bas not ruled ooe out, customers can choose which mix of in house investment services they wish to use remotely, by telephone or via PC. They can dispense with advice and save half or more of the transaction costs.

"The intentioo is to improve customer service while freeing branches from routine activity. allowing more focus on advisory services," Mr Leonard

This is the aim of all big banks in a country where branch density is nearly twice as high as in the US or Japan. "We have to use technology to meet the needs of younger customers who are familiar

with computers, as well as continuing to provide good advice to clients who want personal contact," says Platzek. Thus, while new forms of banking will absorb much of the banks attention, other forms of service will not disap-

pear. "It would be a strategic mistake to try to force traditional customers to use new technology," he says. But as the activities of German banks show, the pace of electronic, home, remote or virtual banking – call it what you will – is

**Andrew Fisher** 

#### CREDIT LOCAL DE FRANCE FRF 300,000,000,-Reverse Floater Bonds due 2003 Bondholders are hereby

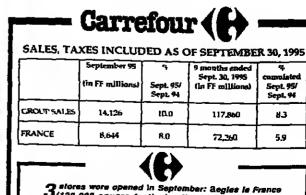
nformed that the rate for the fifth period of interest has been set at 4.07392 % and is payable as from
April 1st, 1996.
The interest for the coupon
N°5 is for the period from
October 1st, 1995 to
March 31st, 1996 (inclusive)

and the price for the coupon N° 5 is FRF 407.39 for the FRF 10,000 Notes and FRF 4,073.93 for the FRF 100,000 Notes. The Fiscal Agent

a CREDIT LYONNAIS

MURRAY UNIVERSAL STATEMENT DIVITE ENGAGE
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L-1118 Lavensburg,
Commencial Register B Mc21
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Company I are hereby minimed that the
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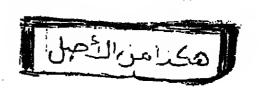
the Company has been been exceeded at the board meeting hash for the Hill August 1995 that, it accordance with the relevant processing and the first planton; Memoraredists, all shares without Memoraredists, all shares without my Memoraredists, all shares without my Memorared in the net avera doubt the calculated on this November albe to be calculated in this November albe to be calculated.



3 stores were opened in September: Regies le France 3(120,000 square fest), Jundiel in Rezil (105,000 square fest) and Ciudad Imagan in Spain (100,000 el). At the end of September 1995, the Group







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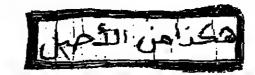
kla lifts

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FINANCIAL TIMES THURSDAY OCTOBER 5 1995



All of these securities having been sold, this announcement appears as a matter of record only.

U.S. \$2,000,000,000

# MBL International Finance (Bermuda) Trust

3% Exchangeable Guaranteed Notes Due 2002

Exchangeable for Shares or American Depositary Shares of, and unconditionally guaranteed by,



# The Mitsubishi Bank, Limited

Financial Advisor to the Bank is Mitsubishi Diamond Securities Co., Ltd.

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MORGAN STANLEY & CO.

MITSUBISHI FINANCE INTERNATIONAL PLC

\$800,000,000

This portion of the offering was offered outside the United States and Canada by the undersigned.

MITSUBISHI FINANCE INTERNATIONAL PLC GOLDMAN SACHS INTERNATIONAL

MORGAN STANLEY & CO. SBC WARBURG
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BANK OF TOKYO CAPITAL MARKETS LIMITED

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COMMERZBANK AKTIENGESELLSCHAFT

DAIWA EUROPE LIMITED

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DRESDNER BANK Aktiengesellschaft SALOMON BROTHERS INTERNATIONAL LIMITED

SOCIETE GENERALE

YAMAICHI INTERNATIONAL (EUROPE) LIMITED

\$1,200,000,000

This portion of the offering was offered in the United States and Canada by the undersigned.

MORGAN STANLEY & CO.

GOLDMAN, SACHS & CO. LEHMAN BROTHERS

THE NIKKO SECURITIES CO. International, Inc.

MERRILL LYNCH & CO. SALOMON BROTHERS INC

BEAR, STEARNS & CO. INC. CS FIRST BOSTON

DEAN WITTER REYNOLDS INC.

SMITH BARNEY INC.

UBS SECURITIES INC. S.G.WARBURG & CO. INC.

Complaint

says Sandoz

lost \$78.5m

Sandoz, the Swiss pharma-

centicals and nutrition group,

apparently lost \$78.5m in

sophisticated derivatives

transactions with Bankers

Sandoz confirmed yesterday

it bad bad a "business dis-

pnte" with Bankers Trust. It

said the dispute "has now

been settled", but the terms

and conditions of the settle-

According to P&G's com-

plaint, Bankers Trust "misrep-

resented or omitted material

information in their dealings

with Sandoz during the course

of Sandoz's transactions in

complex leveraged deriva-

In particular, from the

beginning of 1994, bank offi-cials provided Sandoz with

values that "significantly

understated" the magnitude of

the company's loss position in

a constant maturity swap deal,

It alleged that on February

22 1994, a Bankers Trust offi-

cial discovered that the bank's

hedge of the swap had been

misbooked, and that the bank

did not have the protection that he thought it bad.

The official then allegedly

encouraged Sandoz to reduce

the notional amount of the

swap. On the bank's advice,

Sandoz amended the swap

nine times from February 23 until May 6, apparently believ

ing tt was in a partnership

the complaint said.

ment were confidential.

in deals

By lan Rodger in Zurich

# Fresh evidence stirs P&G row with Bankers Trust

in New York

The increasingly bitter case betweeo Bankers Trust and Procter & Gambie over two failed derivatives trades has taken an extra twist with the unsealing of a buge mountain of evidence which had been filed by both sides in the federal court

Foremost among the evidence listed by P&G are comments made by Bankers Trust employees which, it claims. point to an "atmosphere and corporate mentality" which has led the bank to exploit several customers.

Prominent among these are comments by Mr Kevin Hudson, a managing director of BT Securities and the executive most closely invoived in the two disputed trades with the consumer products giant, Many of the comments were made to Ms Alison Bernhard,

another BT trader. The two, who were engaged at the time and bave since married, talked over the telephone, enabling their comments to be recorded.

This was in spite of the fact that they sat only several feet apart on the bank's New York trading floor.

At one point, talking about one of the leveraged derivative trades conducted by P&G, Ms Bernhard asks: "Do tbey understand that? ... What they did?" Hudson: "No." Bernhard: "They didn't?" Hudson: "No. They understand what they did but they don't under-

stand the leverage, oo."
At another, Ms Bernhard suggested that the company "would never be able to know

Jefferson Smurfit Corporation,

the US arm of the Irish paper and packaging group, said yes-terday it knew nothing about

the losses of \$2.4m which P&G

claimed it had suffered on

derivatives trades with Bank-

By Alison Maitland

replied: "Never. no way, no way. That's the beauty of Bankers Trust."

At one point a bank execuriva is quoted as saying that what a bank can do [for its clients] is get in the middle and rip them off," while another says: "Funny business, you know? Lure people into that calm and then just totally

One bank official described comments by Mr Hudson and other derivatives salespeople as "crass, embarrassing and

**⚠** What a bank can do ffor its clients] is get in the middle and rip them off

stupid". The bank added that it did not "condone any disrespectful or inappropriate attitude toward clients," but that this did not detract from its claim that P&G was not misled about the contracts it bought. It is not only Bankers Trust

whose senior executives are put on trial by the mountain of evidence released on Tuesday. Procter & Gamble was also thrown onto the defensive by evidence which appeared to

ers Trust. "We're dealing with

something P&G helieves to

have affected us. That's new to

us." said the company, which is based in St Louis, Missouri.

tion of being part of a lawsuit

we did not bring."

"We're in an awkward post-

Ha said the company was

out of that". Mr Hndson contradict its claims that it was kept in the dark about the risks involved in the trades.

In the transcript of one telephone conversation between the Bankera Trust and Mr Dane Parker, a P&G employee. the bank's salesman outlines the nature of an interest swap P&G is proposing to buy. Mr Parker replies: "All right, I can do that too. [Pause] Yeah, other than that, I like this, I like the bet."

The evidence marshalled by Bankers Trust also suggests that P&G has allocated blame internally for its losses. Among evidence released were handwritten notes from Mr Edwin Artzt, formerly P&G chairman and chief executive criticising Mr Erik Nelson, chief financial officer, and Mr Raymond Mains, former treasurer, for their part in the affair.

Of Mr Mains, Mr Artzt notes: 'Didn't penetrate – didn't ask Bankers Trust went to sleep." Mr Mains took early retirement last year, a executive, course of action suggested by according to the company, Mr Artzt says. evidence filed in P&G chief financial officar. "made several basic mistakes". the federal court Among these, he "failed to tell me until April 1 when it was all over," according to Mr

Artzt's oote. His punishment was to be censured in front of the board, and to forego his bonus, the documents reveal.

P&G said the evidence was being used as a "smokescreen" by Bankers Trust to obscure its own responsibility. "If we thought that P&G

employees were to blame, we would not have filed the lawsuit against Bankers Trust.

Dublin-based Jefferson Smurfit

Smurfit 'knew nothing of losses' with the bank. It was not told that the bank was taking significant fees for each of these studying the P&G documents and re-evaluating its position. He confirmed that it had bought derivatives contracts through Bankers Trust.

"As of May 9 1994. Sandoz had spent over \$25m in an effort to manage the CMT swap ... Oo May 9 1994, Sandoz decided to terminate Jefferson Smurfit Corporathe CMT swap and agreed to pay defendants an additional \$38.4m to do so," the comtion is 46.5 per cent owned by

#### Chile pipeline battle intensifies Buzzalino. "It doesn't make

The battle betwean two consortia to build a gas pipe-line between Argentina and Chile haated up yestarday. Both projects claimed they would go ahead, in spite of industry fears that Chile's energy market was not large anongh to sustain two pipe-

transactions arranged two "We will huild our pipeline," said Mr Ewell Muse, president of TransGas, a consortium led years ago by Bankers Trust, the US investment bank.
The information emerged in by Tenneco of the US and Britan amended complaint submitish Gas. "If they build theirs, ted to a US court by Procter & there will be two pipelines. What they do is their busi-Gamble, the US honsehold products group, for losses of almost \$200m it suffared in oess.'

"Our expectation is that only one pipeline is going to be built, and we've already war resulted from oversupply, started," said Mr Edgar Buzza. "our clients are in a better lino, markating director at Nova Corp. which is leading the rival project.

Nova had signed construction cootracts and pipeline was already being manufactured, he said

TransGas, whose 800km pipe-line is expected to cost \$690m, intends to start construction next May.

The rival GasAndes project, which follows a more direct route to Santiago by crossing the Andes mountain range at a higher altitude, must begin construction this November to meet its planned 1997 start-up date. Nova expects its project to cost \$285m. Mr Muse said that if a price

"our clients are in a better condition to weather the storm because they have no other generating capacity in

TransGas has signed supply contracts with US generators Southern, Entergy and Inter-Gen, which have agreed to build power stations with a combined capacity of 1,400MW. representing 45 per cent of TransGas's projected supply.

Nova rejected suggestions that its main cliants, Chile's largest generators Chilgener and Endesa, would suffer more in a price war.

"How can they (TransGas) weather any storm if their capital costs are more than double onrs," said Mr

Mr Muse said TransGas had also signed letters of understanding with 190 industries in cantral Chila, representing between a further 45 per cent and 50 per cent of gas supply. TransGas would spend \$30m

on converting these industries to gas. We are very confident that they will convert since we are paying for it," he said, adding that letters of intent would be converted into contracts

Mr Muse said TransGas had hired Chemical Bank to organise financing, of which 70 per cent would be debt, in time to begin drawing down funds

with British Gas with which it

has signed a letter of under-

standing. The Argentine group

has already drilled in the San Julian basin bordering on Falk

Tha well was dry, but Mr

León says it provided valuable data. "We know there is a sedi-

mentary basin (around the islands) and that there are sed-

land waters.

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within five months.

# New chief brings YPF into shape

The next challenge is the group's debt-ridden Maxus unit, writes David Pilling

be has lived in the be has aven in the shadows too long. President of YPF, Latin America's largest private oil group. he is keen to underline his role in transforming the Argentine company from a "fat man weighing 500 kilos...into an athlete abie to run the 100 metres in nine seconds flat."

That transformation, which saw the company move into profits as it cut staff from a bloated 50,000 to below 6,000, is generally associated with the late Mr José Estenssoro, the

YPF president who died in an air crash last May. However, Mr Leon, whose subsequent promotion from the number two slot raised some eyebrows, is adamant the new-look YPF is as much his creation as that of his prede-

"We worked shoulder to shoulder for eight years... he and I laboured as one. And together we achieved this transformation, this restructuring and this privatisation," says Mr Leon.

He says the two men changed the culture of a stateowned company that had "gardeners and bakers on its payroll" into a "husiness able to compete with the Shells of this world",

"It had long heen my dream," says Mr Leon, often regarded as a technician rather than a visionary, "to hring this transformation about. YPF was a sacred animal. We had to rid it of this concept of sovereignty and turn it into a com-

mercial husiness." However, Mr Léon pow faces the challenge of persuading sometimes sceptical institutional investors that he is the man to carry that process for-

In particular, ha must convince them he knows what to do with Maxus, the debt-laden US-based oil and gas company acquired by YPF for

almost \$800m earlier this year. In July, he appointed Mr Roberto Monti, an Argentine, as Maxus chief executive, with orders to cut costs and raise efficiency.

"Maxus has lots of talant, but needs better management," says Mr Leon, who regards the company as "a short cut" to YPF's international ambitions. Without Maxus, "we realised this would take 10-15 years". The aim will be to maximise

profits from Maxus' stakes in Venezuela. Bolivia and Ecuador. Mr León believes Maxus' Venezuelan interests in the Quiriquiri oil deposit have "great potential".

As well as "re-activating" existing wells, YPF will undertake new exploration in Venezuela where a relatively marginal deposit can be as rich as core field in Argentina. Stakes in Indonesia, where

Maxus bas blg deposits in Sumatra and Java, as well as gas interests in the US, could be sold, says Mr Leon, depending on the outcome of a fiveyear strategic plan heing drawn up.

In Argentina, Maxus technology will be used to explore "frontier areas" which had stretched YPF's technical capacity.

better management'

other 19," he says.

YPF may hid for South

basins in Argentina, only five of which are in production. The knowhow that Maxus has acquired internationally can help us to incorporate the

waters around the Falkland islands, where YPF is almost certain to explore following the recent signing of an oil co-operation agreement hetween the UK and Argen-

Atlantic blocks in conjunction

Net loss/profits (\$m)

Nells Léon: Maxus 'needs

Maxus technology could also he employed in disputed

iments. What we don't know is if there is accumulation; To find that out, we must If competition around the Falklands intensifies Mr León has shown he is prepared to play tough. He has sought a court injunction against a consortium, led by Canada's Nova "There are 24 sedimentary Corp, which is aiming to build a rival gas pipeline from Argentina to Santiago in Chile.

YPF, which is part of a pipeline consortium with British Gas and Tenneco of the US, claims Nova's project does not have the necessary legal authorisation to begin construction in November as

owever, Mr Edgar Buzzalino, markating director at Nova, says: 'We believe YPF's claim doesn't have any merit. It's not going to work.

Mr Leon says YPF's project. which will supply gas to southern Chilean cities as well as Santiago, can provide gas through a dedicated pipeline for 20 years, while Nova cannot guarantee supply. Mr Buzzalino maintains

Nova's clients are confident that the gas supply will not be

Whether or not Nova begins construction, "we are going to go ahead", says Mr Leon. This, in spite of suggestions that Chile's energy market cannot sustain both projects without a slump in electricity prices. Competition. he says, is what

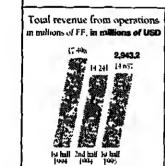
the new, lean YPF likes

# Groupe Paribas

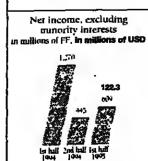
#### GROUPE PARIBAS FIRST-HALF 1995 RESULTS

Net income before tax of FF 2.6 billion (USD 520.7 million) Net income excluding minority interests of FF 609 million (USD 122.3 million)

In a context hardly favorable to the activities of Groupe Paribas, the decline in net income from operations before tax in the first half of 1995 from a year earlier was limited to 18%, despite a strong drop in capital galus realized by the group, and thanks to lower risk expenses.



# Net income before tax millions of FF. in millions of USD



#### This situation reflects:

bigber results from companies in which Paribas Affaires Industrielles bolds an equity

a strong increase in the contribution from Compagnie Bancaire.

Crèdit du Nord's return to breakeren.

mixed results from the core businesses of Banque Paribas. a real estate cost which remains significani, following a new decline in the French office real estate markel in the first balf.

#### Total revenue from operations declined 16% to FF 14.7 billion

Total revenue from operations amounted to FF 14.7 billion, a 16% decline from the first balf of 1994. but slightly over the second balf of last year. This is due to a dlp in net banking rerenues and fewer capital gains in the first balf of 1995. Net banking revenues declined 8.3% to FF 13.3 billion, due primarily to u smaller

contribution from Banque

Paribas. Lower revenues

from capital markets and

asset management activi-

ties at the bank were only

partially offset by good performances in asset and

liubility management, corporate banking and

advisory services. For their part, net banking revenue contributions from Compagnie Bancaire and Crédit du Nord declined sligblly.

-Other revenues amounted to FF 1.4 billion in the first balf of 1995, versus FF 3 billion in the same period one year earlier. These revenues include capital gains realized on the sale of assets net of provisions on equity investments, as well as results from companies accounted for by the equity melbod.

For their part, results at companies accounted for by equity method advanced 51% to FF 361 million, and slem from earnings growth at the main equity boldings of Paribas Affaires Industrielles. They incorporate nonetheless a marked drop in contribution from Compagnie de Navigation Mixte.

#### Net income before tax of FF 2.6 billion

· General and administrative expenses rose 1.6% to FF 10.2 billion.

- Provisions for loan losses and other risks declined 56% to FF 1.9 billion.

Loans ontstanding to real estate professionals (excluding loans to blue-chip groups and Cogedim/ Sinrim) declined 10% to FF 15.6 billion. The coverage rate for these risks was strengthened in the first balf, rising from 40% at the end of 1994 to 43% at June 30, 1995.

Excluding provisions, the group's exposition to office real estate risks amounts to FF 1.7 billion for the lending business (-32%) and FF 3.5 billion in transaction value (-13%) for the property development (Cogediin and Sinviin) business.

Net income including minority interests declined 25% to FF 1.6 billion, following an income tax charge to the group which fell only 6.3% to FF I billion.

#### Net income excluding minority interests of FF 609 million and stable estimated net asset value

Net Income excluding minority interests amounts to FF 609 million, versus FF 1.3 billion for the first balf of 1994.

The estimated net asset value at June 30, 1995 amounted to FF 483 (USD 97) per share, versus FF 481 at December 31, 1994.

INVESTOR RELATIONS - 3. RUE C'ANTIN - 8P 141 -75002 PARIS GEOEX GZ - FRANCE - TEL. (33.1) 42 88 77 45 - FAX (33.1) 42 98 15 25

# Kimberly defends plans for merger

NEW ISSUE October 4, 1995

By Roderick Oram,

Kimberly-Clark said yesterday it would still face stiff competition from small independent makers of bathroom and kitchen tissues if the European Commission allowed its proposed merger with Scott Paper. Its own brands such as Kleenex and Andrex would also

from supermarket own-iabel

tion". Kimberly said. The EC is investigating the proposed maet increasing competition

market shares the two US companies have in soma European countries, particularly the UK. panied the first publication of its market share figures. On all counts they were much iower

tban those presented last

merger because of the large Kimberly's comments accom-

products. Thus, the merged company's brands "cannot be

said to hold a dominant posl-

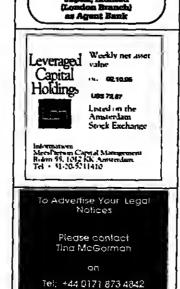
month by one of its rivals opposed to the merger.
"We're mystified," said Mr Alan Goda, a senior Kimberly executive. "We just can't conceive of numbers of that size." Both sets of figures used data from Nielsen, the market

researchers, for shares of the branded markets. However, Kimberly and its rival made their own estimates of Kimberiy/Scott's share of the large own label market.

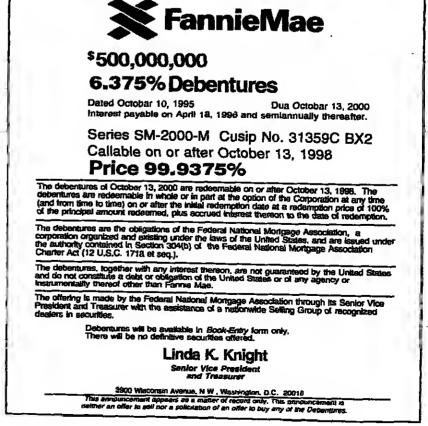
Kimberly estimates the combined company would have 18.2 per cent of total western European tissue manufacturing capacity and a branded market share of about 22 per cent in Germany. France and the UK against own-labels' 42

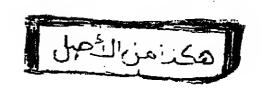
in the UK, its share of branded toilet paper would be 35 per cent, of kitchen towels 12 per cent and facial tissues 34

#### JAPAN AIRLINES COMPANY, LTD. ¥10,000,000,000 Floating Rate Notes due April 1998 For the period \* 5th October 1995 to 5th January 1996 In accordance with the Terms and Conditions of the Notes, and Conditions of the Notes, notice is hereby given that the rate of interest has been fixed at 0.71875 per cent. per annum and that the interest payable on the relative payable on the relative payable of the relative of Japan, Etmited



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#### INTERNATIONAL COMPANIES AND FINANCE

# Nomura plays lottery card to woo investors

have haen concerned that

attempts to lure customers

with special offers might lead

soma of the more reckless

institutions to offer more than

they could afford. But in the

past year the pace of financial

deregulation has begun to open

up the market to increasingly

Last autumn the introduc-

tion of lottery deposit accounts by a small Tokyo-based bank

ingenious products.

Salayay Salay

hard-pressed stockbrokers, beset by continued weakness in the country's equity market, are appealing to the Japanese obsession with gambling in an effort to revive

Nomura Securities, the country's largest broker, said yesterday it planned to launch a lottery tied to investment accounts, with the lure of monthly individual prizes of up to Y50,000 (\$493).

A company spokesman said the scheme was expected to raise individual interest in squity investment, which has waned dramatically in the past five years. Other brokers said they were considering plans

for the introduction of similar community. The authorities

The scheme will be applied to investments in Nomura's "ruito" accounts, where customers save a fixed sum per month for investment in the equity market.

Customers who maintain regular deposits for an as yet undisclosed period will be entered automatically in tha monthly prize draw with the possibility of winning either cash or gift certificates. No date has been set for the launch of the lottery but the company hopes to have it in place by the end of the year. Lotteries tied to bank or brokerage accounts have tradi-

caused uproar among competi-tors, who promptly tried to have it squashed by the regulators. But it proved so popular that the authorities were forced to permit the bank to

continue the account. The product was copied by other small banks and now seems set to spread to stock-brokers. Later this month the Japan Securities Dealers' Association will approve the operation of such schemes by its

But brokers seem likely to face a harder time than banks in selling the products to their customers because of the large capital risk associated with buying atocks.

Punters in the Japanese equity market have been on an extended losing streak. Stock prices peaked in December 1989, and have since fallen more than 50 per cent. Hardesthit have been millions of individual invectors, many of whom have lost a large proportion of their life savings.
As a result trading by indi-

NTT president, has spent a good deal of time arguing the

case for keeping the company

The blurring of borders

between the telecommunica-

tions and other industries

would not be restricted to com-

The technological advances

r Kojima has been

of recent years are changing

the ground rules for competi-

tion. This is a frightening

taking action that could help counter arguments for a break-up. Last

week, he made a surprise dec-

laration that NTT would open

up its local loop to any compet-

itor at any point along the net-

was hampering tha develop-

ment of new services by its

There have been indications

that NTT is considering spin-

ning off some of its businesses

in a response to criticism that

Judging from the rising

momentum in favour of a break-up, uniess it can muster

wider political and poblic sup-port, NTT faces a difficult test

of its new offensive over the

Michiyo Nakamoto

next six months.

it is too big and inefficient.

competitors in

long-distance market.

The offer was intended to

Kojima emphasised.

change," he said.

Last year total trading volume was little more than a third of its level in the late 1980s. This vear there has been a slight recovery in investor interest but not one likely to benefit brokers significantly.

industry observers doubted Nomura's move would have more than a marginal impact on activity. "Individuals' trading volumes have been so low in the past few years that they hava become the least profitable part of brokers' business," said Ms Elizabeth Daniels, financial sector analyst at Morgan Stanley in Tokyo. "This is an attempt to raisa volumes and get profitability up a bit. But frankly I'm not holding my breath."

# tionally been frowned upon by Japan's conservative financial When breaking up is hard to do

NTT has gone on the offensive to counter growing calls for it to be split up

he past few months have seen a flurry of activity at NTT, Japan's

usually slow-moving telecom-munications group.

The activity portrays a com-pany that has decided to go on the offensive in the face of the threat of heing broken up when the government concludes a review of Japan's telecommunications industry next

Yesterday, NTT revealed it had formed a partnership with Cable and Wireless, the UK telecommunications company, Hong Kong Telecom, a C&W subsidiary, and Itochu, the Japanese trading company, to set up a company that would market NTT's personal handyphone systems in Asia.

On Monday, NTT said it had formed an alliance with Novell, the US company, AT&T, the US telecommunications operator, Deutsche Telekom and others to promote network security and standardisation of operations and to provide network services for husiness communications.

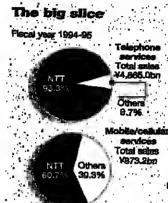
Sandwiched between the two came the disclosure that NTT was keen to enter the international telecommunications market, an area that it is prohibited from joining under Jap-

This year, the domestic carin a mobile and international communications company in the Philippines and participate in the construction of a tele phone network in Hanoi, Viet-

Calls to split up the company, which has a virtual monopoly of the local telecoms market in Japan, have been growing louder by the day, as the debate, by an influential advisory committee to the telecoms authorities, gathers pace. On Tuesday, the committee

compiled a report in which it recommended breaking np NTT to increase competition in

erger



the market and ensure low-cost and convenient services for consumers.

in introducing services.

Meanwhile, the investment community has started to look

In its current form, NTT is the largest telecommunications carrier in the world, with operating revenues for the last fiscal year of \$79.1hn. AT&T, which recently decided to spin off its telephone equipment manufacturing and computing husinesses, made sales of \$49bn from its telephona services business.

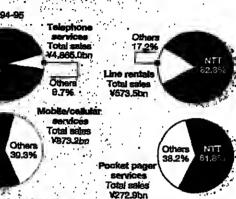
NTT has a 98 per cent share of Japan's local telecommunications network and about 70 per cent of the long-distance network where it has competed with three new entrants since 1986, according to Mr Eric Gan. industry analyst at Goldman Sachs, the US securities com-

The problems which arise from its size and dominance in the domestic market have been a powerful argument for hreaking up NIT. The ministry of posts and telecommunications contends that greater competi-Japanese public derives the full benefits of the coming information society.

TTT's competitors in the long-distance market, which was deregulated in 1985, complain that NTT abuses its control over the local network by refusing to provide them with timely and reasonably priced access

to the local network. The Japanese media has been awash with reports of public frustration over NTTs hureaucratic operations, its

high prices and slowness



Masahi Kolima: NTT president break-up, Mr Masashi Kojima.

at divestiture in a positive light. The adverse impact on NTT's share price was a strong argument against a break-up in an NTT review conducted five years ago. However, market analysts

this time support a break-up on the grounds that it would increase NTT's market valoe. Mr Makio Inm, industry analyst at Kleinwort Benson in Tokyo, believes breaking up NTT would raise the market value of the separate companies hy at least 35 per cent over NTT's current market

value of Y11,856bn (\$117bn). A spreading consensus that the benefits of a break-up far outweigh the disadvantages has been building up amid a lack of strong opposition from key parties, apart from NTT and the company's labour

union. While Mr Ryutaro Hashimoto, the minister for interna-tional trade and industry and a access to NTT's local network leading contender to become Japan's next prime minister. has cautioned against a quick decision to split up NTT, and opposition politicians have been sympathetic to NTT's cause, the political establishment has not yet turned its

attention fully to the issue. The finance ministry, which owns some 65 per cent of NTT. says publicly that it has no say on the break-up per se but is only concerned that shareholder protection is properly accounted for.

With more voices heard in favour of, than against, a

# oil assets

By Bruce Jacques in Sydney

South America.

The company said yesterday it would sell 395 properties with combined net production to BHP of about 4,000 barrels a day of oil and 125m cu ft a day of gas. It gave no financial

meaot competition to NTT "The core assets to he retained incinde exploration panies in the industry but would increasingly come from other industries as well, Mr

#### JAL chief bullish on profits

profits for the year March may exceed the company's earlier forecast of Y3bn (\$29.6m) against the previous year's Y2.82hn, the carrier's president, Mr Akira Kondo, said yesterday, Reuter reports from

optimism was larger than-expected revenue in the six months to September 30, mainly in JAL's international passenger business.
Mr Kondo also said JAL

Honolulu service.
United has asked for the

route licence to be renewed for only 120 days or until US-Japanese talks on air cargo are concluded. United Airlines made the

complaint to the government after Tokyo's refusal to allow it to extend its flight from the US to Japan's Kansai Interna-tional Airport to Seoul.

#### Reebok opens first five shops in India

Reebok international's Indian unit has launched operations in Bomhay and New Delhi with the opening of five shops and has said the country could increasingly supply its sports shoes for overseas markets, Reuter reports from New

Reebok India, which is 80 per cent owned by Reebok International with the rest held by India's Phoenix Overseas, said it had opened three retail outlets in Delhi and two

The joint venture said it iniwear in India by 1997.

### **BHP** plans to divest American

BHP, the Australian resources group, plans to divest the bulk of its widely spread petroleum production assets in North and

details.

The properties are in Texas, New Mexico, Wyoming, Louis-iana, Canada and Argentina. BHP said the sale included all assets which were not core to the company's future growth

and producing properties in the Gulf of Mexico and in Bolivia," it said. "The company also intends to pursue other exploration acreage and prospects in certain other Latin American countries and North America." The divestment process is expected to take several months.

• Foodland Associated, the Australian grocery group, has returned to the black in the year to July, turning a A\$10.1m loss into a A\$52.6m (US\$40.5m) profit. Sales rose from AS3.35bn, to AS5.58bn, and the annual dividend is up from 12 cents to 30 cents a share.

Japan Airlines' parent current

The main reason for this

would he asking the US department of transportation to reject United Airlines' complaint about JAL's Japan-

On the subject of Japanese domestic flights, Mr Kondo said he wanted complete deregulation to enhance competition. He also said that Japan would eventually need a third airport for Tokyo, in addition to existing airports at Haneda and Narita.

in Bombay.

tially expected to invest \$5m in India and to set up about 55 showrooms for Reebok sportsTHIS NOTICE IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF HOLDERS OF BEARER BONDS. IF HOLDERS ARE IN ANY DOUBT AS TO THE ACTION THEY SHOULD TAKE, THEY SHOULD CONSULT THEIR FINANCIAL ADVISER, STOCKBROKER, LAWYER, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER AUTHORISED UNDER THE FINANCIAL SERVICES ACT 1986 WITHOUT DELAY.

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Tesco Capital Limited (the "issuer") hereby gives notice to holders of the Bonds in bearer form (the "Bearer Bondholders" and the "Bearer Bonds" respectively) that the Issuer will on 6th December, 1995 (the "Required Conversion Date") convert all of the Bonds. (Including those that are in registered form) then outstanding into Preference Shares of the Issuer in accordance with Condition 8 of the Conditions of the Bonds. Each of in principal amount of each such outstanding Bond (or part thereof) shall be converted on the Required Conversion Date into one fully paid Preference Share in the Issuer, which shall be allotted at a price of £1 in accordance with the Articles of Association of the Issuer and shall forthwith be redeemed by the Issuer at a price of £1 per Preference Share in accordance with the rights attaching thereto. Interest on Bonds so converted will accrue up to (but excluding) the Required Conversion Date.

CONVERSION AND EXCHANGE RIGHT

CONVERSION AND EXCHANGE RIGHT

CONVERSION AND EXCHANGE RIGHT

Required Conversion and Redemption Contemplated by this Required Conversion and Redemption Notice shall not apply to any Bearer Bond in respect of which the applicable Conversion and Exchange Right is exercised by the relevant Bearer Bondholder in accordance with Condition 7(a) of the Conditions of the Bonds their Conversion and Exchange Rights shall terminate at the close of business on 29th November, 1995. Prior to such time &serer Bondholders may exercise their Conversion and Exchange Rights by delivering to the specified office of any Paying and Conversion Agent listed below during its usual business hours Bearer Bonds with all unmasured Coupons appearabiling thereto accompanied by a duity completed and signed notice of conversion and exchange indices are obtainable from the specified office of any of the Paying and Conversion Agents in accordance with Condition 7(c) of the Conditions of the Bonds and otherwise complying with the Conditions of the Bonds.

IMPORTANT

The value of the Ordinary Shares of Tesco PLC into which each £1,000 principal amount of Bonds is convertible following the excercise of Conversion and Exchange Rights in respect of the Bonds and based on the closing mid-market quotation of the Ordinary Shares as derived from the Stock Exchange Daily Official List on 28th September, 1995 of 30ep per Ordinary Share and an Exchange Price of 25tp per Ordinary Share is £1,231.08.

The redemption amount of the relevant Preference Shares (including accrued interest on the Bonds) following a Required Conversion of the Bonds for each £1,000 principal amount of Bonds in the case of holders of Bearer Bonds who do not exercise their Conversion and Exchange Rights is £1,028.50.

Bearer Bondholders who wish to accept redemption of the relevant Preference Shares (together with accrued interest on the Bonds) rather than to exercise Conversion and Exchange Rights should surrender their Bearer Bonds (together with all unmatured Coupons appentalining thereto) for payment in accordance with Condition 14 of the Conditions of the Bonds and the Articles of Association of the issuer, at the specified office of any Paying and Conversion Agent listed below on the Required Conversion Date, unless Royal Exchange Trust Company Limited (the "Trustee"), as trustee of the Bonds, exercises its Conversion and Exchange Rights in respect of the Bearer Bonds in accordance with Condition 7(d) of the Conditions of the Bonds. If the Trustee does exercise its Conversion and Exchange Rights is conversion and Exchange Rights in espect of the Bearer Bonds in accordance with Condition 7(d) of the Conditions of the Bonds. If the Trustee does exercise its Conversion and Exchange Rights, a further notice will be published giving details of the resultant proceeds and the mechanics of payment.

PRINCIPAL PAYING AND CONVERSION AGENT

OTHER PAYING AND CONVERSION AGENTS

Issued by: The Chase Manhattan Bank, N.A., a member of SFA and IMRO, on behalf of Tesco Capital Limited

Date: 5th October, 1995



All these Notes having been sold, the

Hypothekenbank in Berlin Aktiengesellschaft

DM 150,000,000 Floating Rate Notes of 1995/2000 Series 314

Issue Price:

Six-Months-DM-LiBOR, payable semi-annually in arrears on April 4 and October 4

October 4, 2000 at par

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#### THE PARSONS & WHITTEMORE GROUP announces its acquisition of

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Funds provided by S.G. Warburg & Co. Limited and MeesPierson N.V.

September 8, 1995

This announcement appears as a matter of record only.

# Jakarta bourse seeks return to roots

The head of Jakarta'a capital markets supervisory board likens Indonesia's fledgling stock market to a car engine with one cylinder. Perhaps a less scathing analogy would see the stock market as a very sophisticated air-craft waiting for passengers to

board before it can take off. An updated capital markets hill, an automated trading system which can handle up to 50,000 transactions daily compared with the 3,800 manuallyentered transactions previously, a new trading floor in swish twin towers in the heart of Jakarta's central business district, and next year the introduction of scripless and remote trading, have all ensured that the Jakarta stock exchange is equipped with

state-of-the-art technology. There is only one hitch; potential domestic investors have shown little interest. At a conference on the development of Indonesia's capital markets in Jakarta this week, speakers stressed the need to develop a domestic investor base in a market where two-thirds of all

trading was foreign-driven. The latest developments have already provided a significant boost to indonesia's notoriously illiquid market. Since automated trading started, the number of shares traded daily has increased to 42m from 32m. The average value of daily trading was Rp 123bn (\$34.3m) in the first nine months of this year, up 18 per cent on last year, and is expected to reach Rp 200bn hy the year-end. However, with ambitions to

he south east Asia's biggest stock market and play a crucial role in financing indonesia's development, further measures are needed.

"In the long run we cannot

rely solely on the needs of international institutional investors," says Mr Bacelius Ruru, head of the capital markets supervisory board, known as Bapepam. "Liquidity can only be achieved by having a

large domestic investor base."
This week, Indonesia's parliament passed a new capital markets bill which comes into force on January 1 1996 and allows open-ended funds to operate in Indonesia for the first time. The expectation is that this will spur the development of money market and mutual funds; previously there were only closed-ended funds. Analysts agree that the

scope for domestic investment

in equities is huge and that the

new law clears the way for

more. According to Mr Ruru.

less than 1 per cent of inves-tors who have savings

accounts currently invest in

Meanwhile, between 1989

and 1995 account balances

grew from \$12bn to \$32hn and

are set to rise rapidly as aver-

But indonesia's notoriously

high interest rates, currently

between 11 per cent and 15 per

cent, make it difficult to

attract domestic funds. in 1993.

for example, only 7 per cent of

the total investments made by

Indonesian institutions and

pension funds were in equities

with the majority - more than

36 per cent - going into time deposits of between six months

Interest rates are set to

and 18 months.

age incomes improve.

remain high, reflecting a 10 per cent inflation rate and the premium needed to guard against political risk, which prompts the richest individuals to keep a high proportion of their assets offshore. Nevertheless, the develop-

ment of open-ended funds will make it easier for domestic privata clients and institutional investors to move funds into equities and diversify their risk. "To make long-term return requirements, you need to have a mixture of invest-ments and one of those is typically going to be equity," says

Mr Michael Chambers, president director of GK Goh Ome-

Indonesia's exchange has a high-tech trading system but low domestic investment, writes Manuela Saragosa

> traco Securities in Jakarta the stock exchange is to change the Indonesian public's attitude to stock market investments. "[For us] the toughest by far is the educational process," explains Ms Felia Salim, a director at the Jakarta Stock Exchange. "There is only one kind of

The immediate challenge for learning curve and we're at the

eminars about investing in equities are being held throughout the country. Meanwhile, the initial public offering of Telkom, the domestic carrier which will raise between \$2bn and \$3bn when it is listed in New York, London and Indonesia later this year. will offer either a bonus share or a discount for domestic

future of our capital market The hope is also that the

new capital markets bill, which gives Bapepam new enforcement powers to crack down on unethical trading, will increase market transparency, making it a more attractive vehicle for Indonesian investors. The hill makes Bapepam

more than just an administrator, allowing it to subpoena people and investigate allegations of share manipulation. It also tightens standards over disclosure and makes penalties for those found violating regulations more severe. "The new law gives Bapepam

significant powers," says one foreign research analyst. "But Bapepam has to develop its "Credibility of the market in the eyes of investors is only obtained by ensuring that dis-

closures made are accurate."

Analysts say that the stock

exchange's record in its new developments eo far is enough to boost confidence about its future. There are teething pains the real-time composite index, for example, is still not adjusted to reflect rights issues

but these should be tempor-Whether the stock market develops the way officials hope will depend on whether they manage to get the interest of domestic pension funds and

"Judging from the history of

other markets, those entrepre-

neurs who open the retail mar-

institutions.

and issues of bonus shares -

ket are most likely to be the leaders 10 or 15 years from now," says Mr Mar'ie Muhammad, the finance minister. "It is in Malang and Medan, Surabaya and Jakarta, Denpasar and Bandung that the

#### FWANCIAL NEWS FROM BANK OF SCOTLAND



#### **Bank of Scotland** 1995 Interim Results

	5 months ended 31. August, 1995 (unaudited)	6 months ended 31 August 1994 (unaudited)	Year ended 28 February 1995
OPERATING PROFIT BEFORE PROVISIONS	£339.6m	£321.4m	£650.0m
PROFIT BEFORE TAXATION	£261.6m	£213.2m	£449.7m
TOTAL CAPITAL RESOURCES	£3,105m	£2,534m	£2,731m
TOTAL ASSETS	£36,837m	£31,951m	£34,104m
EARNINGS PER ORDINARY STOCK UNIT	12.6p	10.9p	22.3p
DIVIDEND PER ORDINARY STOCK UNIT	2.45p	2.13p	5.82p

Net dividend increased by 15.0 per cent-

Tier I, and Total Capital Ratios are 6.6 per cent and 12.0 per cent respectively (February 1995) 6.1 per cent and 11.4 per cent respectively)

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FINANCIAL TIMES

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#### COMPANY NEWS: UK

# Lucas expects lifting of ban on US defence work

By Bernard Gray, Defence Correspondent

Lucas Industries, the aerospace and automotive company which has just agreed to pay \$85m in damages to the US Department of Defence over contract breaches, expects to have a bar preventing it from bidding for further DoD work lifted in the next few weeks.

The bar will remain on the company's Western Gear sub-sidiary, the source of the recent trouble, until production problems are resolved, but all other Lucas companies should be free to compete for Pentagon contracts.

However, Lucas is unlikely to chase substantial new work after its bruising experience. Rather, the Western Gear subsidiary is likely to be sold if a huver can be found. That may

**Arjo Wiggins** 

Mr Cob Stenham, Arjo chair-

total spent on paper mer-chants to £200m. The acquisi-tions had been highly opportu-nistic, and would lift gearing

to 50 per cent at the year end.

However, strong growth in

paper merchanting, coupled with the acquisitions, would

push group turnover in the sector up by about £0,6bn to about £1.8bn this year.

Mr Stenham was confident of annual compound growth of

at least 10 per cent in the Southern African market, Per capita consumption in South

Africa itself was about oneseventh of the level in France.

and there was "a great deal to

In Angust the group

cemented its position as coutineutal Europe's largest paper distributor with the acquisition of Muhlebach, the Swiss paper merchant, for £116m. It is still hoping to close the gaps in its European coverage in the Netherlands and Germany.

in S Africa

By David Blackwell

August.

entation of the company to focus on its antomotive and aeroengine controls activities.

A re-orientation has been expected since Mr Georga Simpson, the company's chief executive, arrived from British Aerospace 18 months ago. However, substantial manageresolving the Western Gear problems, which have cost the company about £170m in total.

finance director, accepts that the company's management was to blame for its problems in the US. "It may well be that there was a poor management culture [at Western Gear] when we bought the company. but we have to acknowledge that we did not do anything

was bought by Lucas for 252m in 1987, and is the sole supplier of gearboxes for the US Navy's F/A-18 fighters. The company ran into trouble because it faisified test results on the gearboxes before supplying them to

the Navy.
The huge losses come as the DoD campaign to crack down on poor quality suppliers has gathered pace. Civil claims and steadily, with the Lucas \$88m settlement being the largest to date, narrowly beating the \$85m paid by Teledyne, tha US

One other supplier to the Pentagon said: "The only way to be safe is to stick to the specification and treat your

# staff well. Disgrantiled employ-ees can quickly become well-paid whistle-blowers in the US."

# £23m buy for | Netto expands into SE England

By Neil Buckley

Netto, the Danish-owned Arjo Wiggins Appleton, the discount grocery chain, has Anglo-French paper group, yesterday added South Africa bought the UK operations of to its expanding paper distri-Erteco, which runs the Ed bation business with the £23m chain of discount stores, taking cash purchase of Graphtec, the leading Sontb African mer-chant of printing and writing it into south-east England for the first time. The acquisition marks fur-

ther consolidation in the dis-Graphtec, which also opercount sector, after the acquisiates in Botswana, Zimbabwe tion last November hy Kwik and Mauritins, had sales of Save, Britain's biggest discount grocer, of the British £123m in the year to the end of operations of Shoprite, the Isle of Man-based discounter, It man, said the deal - the fifth this year - would bring the leaves Kwik Save, Netto, and Germany's Aldi and Lidl

> food chains in the UK. Mr Henrick Gundelach, Netto's managing director, said his company had bought for an undisclosed sum 13 Ed stores

chains as the main discount

in sonth-east England, and would keep all the store staff and some at head office.

"This is the launch pad for us into the south-east," Mr Gundelach said. "We already have several other stores in the pipeline. Erteco, a subsidiary of Carre-

four. France's largest retailer, said the sale was "motivated by the difficulties in achieving critical mass in this market" The company recently closed five under-performing Ed stores. Since the first stores opened in 1992, analysts have been aurprised by its slow The withdrawal from dis-

counting is the second time Carrefour has withdrawn from the UK, after trying unsuccessfully to launch its hypermarket format in the 1980s.

# LEX COMMENT

Friday is the last day for Manweb investors to decide whether to accept Scottish Power's 990p a share hostile offer. With Scottish Power now controlling 26 per cent of Manweb's stock, many have already made up their minds. The rest should follow suit. Manweb's defence package, which promises 550p in spe-cial dividends and preference shares while leaving a highly geared rump business, has not convinced investors. The Achilles heel has been the dismal performance of Northern Electric shares since that company pioneered tha "scorched earth" defence.

the same yield as that of Northern, leaves the value of Manweb's package atill roughly 100p behind Scottish Power's offer. Manweb may be right that Northern's rump is underval-ned. But if investors believe this, they should taka Scot-tish Power's cash and plough it back into Northern shares.

The fact that Scottish Power

is not paying a big premium over the value Manweb can

generate through its defence

package is also irrelevant.

The important point is that

nobody else is willing to pay Putting the Manweb rump on shareholders is now whether

to accept 990p cash or the cash and share offer of £10.02 For those who wish to hold Scottish Power shares, the cash and share offer is the obvious choice. But anybody contamplating selling the shares in the market would The 12p premium could easily be wiped out if other inves-tors also decided to dump their Scottish Power shares.

### Grampian goes for higher margins

improved margins helped Grampian Holdings, the diversified industrial group, lift interim pre-tax profits 19 per cent from £3.59m to £4.29m.

Mr Bill Hughes, chairman and chief executive, said the group had concentrated its energies on chasing higher margin products. Pre-tax margins improved to 6.1 per cent. up from 5.5 per cent.

The transport division saw particularly strong growth with sales up 16 per cent to £21.9m while pre-tax profits jumped 42 per cent to £2.2m. Warehouses and distribution -the focus of the capital invest-

Tipper trucks, the other part of the transport division, saw an increase in higher margin landfill and anvironmentally popular work compared with traditional construction orders:

of £183,000 into a £23,000 profit on turnover down 7 per cent reflecting a change in the fee

	Thirmy	Mr (Do)		9-lax H (2m)	8	5 (p)	behaveut (b)	Date of payment	Corresponding	Total for year	Total last
Ametic Reed 28 was to Aug 12	36.3	(34.5 )	7.38	(1.84.)	3	(3.9)	2	Dac 1	2		6
Bank of Scotland		(-)	261.64	(213.24)	12.6	(10.9 )	2.45	Dec 15	2.13		5.82
Blershelm 6 mths to June 30	92.1	(99.7)	13.1	(19.2)	6.4	(11.3)	3.5	Jan 5	3.5		10.35
Born Shrwert Yr to July 2	50.4	(40.7)	3.97	(4.18)	4.65	(52)	3.3	Nov 29	. 3.3	5	5
Global 5 6 mths to June 30	54	(41)	0.842	(0.715)	0.421	(0.38)	0.2	Nov 30	0.2		0.525
Gramplen Holdings	70.8	(65.8)	4,29	(3.59)	4.34	(3.68 )	1.8	Nov 14	1.7	-	5.75
Herarden Stuart	141.8	(128 )	19.7	(16.2)	6	(4.12 )	0.75	Dec 14	*880.0		277
Busing 6 miles to June 30	565.6	(559.1)	15	113.5)	5.9	(4.8)	4	Dec 15	4		10
Journey Princes St	17.4	(16.8)	0.817	(0.734)		(-)	37	Nov 17	34		71.5
Reff Clark 8 mt/s to Sep 30	1.35	(1.61)	0.307	(0.12)	59	(24)	4	Oct 24	•		•
REA6 mins to June 30	48.8	(43)	0.658	(0.592)	3,7	(3.5)			-	•	4
United industries	32.6	(23.6)	1.75	(0.563)	0.63†	(0.36 )	0.15	Nov 22	0.1	•	0.32
UsboomeYr to June 30	183,8	(218 )	0.6221	(13.ZL )	1.78L†	(70.14L)	nt		nΠ	mă	nii
Investment Trusts	MAN	80		gs (Eas)	EPS	s (ps)	Correct payment (II)	Date of payment	Corresponding (Dvidend	Total for	Total last year
Intil Jersey 6 mms to June 30	-	(- )	0.199	(0.478)	6.3	(8)	8.3	Oct 13	8.386	_	17.8
Mith Attentic Small	•	(-)	0.1791.	(0.251.)	2.02L	(3.17L)		•	•		•
Dividends shown not. Earnings shown besic. Fig not subject to tax charge. SUSM stock.	ues in b	ackets are	for curresp	onding perio	d. †On Inc	named capita	al. "Adjusted for	ecto issue.	After exception	nal charge.	includes 4.8p

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#### Rustenburg Platimum Holdings Limited Registration No. 05/22452/06 (Incorporated in the Republic of South Africa) ("Rustenburg Platinum Holdings" or "the Company")

#### Results of election to receive a final dividend instead of a capitalisation award

The right of election to receive a final cash dividend instead of an award of capitalisation shares ("the Capitalisation Award") made to ordinary shareholders registered at the close of business on Friday, 1 September 1995 ("the record date"), closed at 16:00 on Friday, 29 September 1995. The closing price of Rustenburg Platinum Holdings ordinary shares on Tha Johannesburg Stock Exchange on 29 September 1995 was R79,50. Accordingly, the award of capitalisation sbares was determined as a ratio of approximately 2,03774 new shares for each 100 shares bald on the record date.

Elections to receive the final dividend of 147 cents per ahare in respect of the year ended 30 June 1995 were received in respect of 12 355 044 shares. Accordingly, a final dividend of 147 cents per share has been declared on 12 355 044 ordinary shares in respect of the year ended 30 June 1995, and 2 301 936 new fully paid Rustenburg Platinum Holdings ordinary shares of 10 cents each have been allotted in terms of the Capitalisation Award. The issued abare capital of Rustenburg Platinum Holdings has been increased to 127 622 367 ordinary shares

The listing of 2 301 936 new ordinary shares in Rustenburg Platinum Holdings will commence on The Johannesburg Stock Exchange from the commencement of business on Wednesday, 4 October 1995. It is expected that the new ordinary shares will be listed on the London Stock Exchange as soon as practicable.

Cheques in respect of the cash dividend/fractional entitlements and shares sold for tha benefit of shareholders, as well as share certificates, will be posted to members oo or about Wednesday, 4 October 1995.

4 October 1995

#### Potgictersrust Platinums Limited Registration No. 01/08353/06 (Incorporated in the Republic of South Africa) ("PP Rust" or "the Company")

#### Results of election to receive a final dividend instead of a capitalisation award

The right of election to receive a final cash dividend instead of an award of capitalisation shares ("the Capitalisation Award") made to ordinary shareholders registered at the close of business on Friday, 1 September 1996 ("the record date"), closed at 15:00 on Friday, 29 September 1995. The closing price of PP Rust ordinary shares on The Johannesburg Stock Exchange on 29 September 1995 was R22,00. Accordingly, the award of capitalisation shares was determined as a ratio of approximately 2,36364 new shares for each 100 shares held on the record date.

Elections to receive the final dividend of 47 cents per share in respect of the year ended 30 June 1995 were received in respect of 15 704 595 sbares. Accordingly, a final dividend of 47 ceots per share has been declared on 15 704 595 ordinary shares in respect of the year ended 30 June 1995, and 2 507 353 new fully paid PP Rust ordinary shares of 3.5 cents each have been allotted in terms of the Capitalisation Award. The issued share capital of PP Rust has been increased to 124 292 252 ordinary shares.

The listing of 2 507 353 new ordinary shares in PP Rust will commence oo The Jobannesburg Stock Exchange from the commencement of business on Wednesday, 4 October 1995. It is expected that the new ordinary shares will be listed on the London Stock Exchange as sooo as practicable.

Cheques in respect of the cash dividend/fractional entitlements and shares sold for the beoefit of sharebolders, as well as share certificates, will be posted to members on or about Wednesday, 4 October 1995.

Jobannesburg 4 October 1995

MEDIOBANCA

SOCIETA PER AZIONI

HEAO OFFICE, VIA FILODRAMMATICI 10, MILAN, ITALY
PAID-UP SHARE CAPITAL LIT. 476 BILLION: RESERVES, LIT. 3273.7 BILLION

#### Notice of Ordinary General Meeting

Notice is hereby given that an Ordinary General Meeting of Mediobanca will be beld at the Company's Head Office in Via Filodrammarici 10, Milan, Italy, at 10.00 a.m. on 28th October 1995 in the first instance, and any adjournment thereto at the same time and place on 30th October 1995, to transact the following

1) The Accounts for the year ended 30th June 1995, the Directors' and Statutory Audi-2) Election of Directors.

Under Article & of Mediobanca's Articles of Association, shareholders who have Under Article 2 of Mediobanca's Articles of Association, shareholders who have at least five days prior to 28th October 1995 lodged their shares at the Company's Head Office or at any Branch Office of Banca Commerciale Italians, Banca de Monte, Credito Italiano or at Monte Tiroli S.p.A. (in the case of shares managed by it) shall be entitled to attend the meeting on presentation of an admission ticker.

r.p. the Board of Directors
the Managing Director

#### **CONTRACTS & TENDERS**

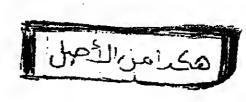


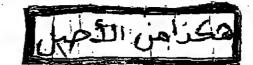
PETRÓLEO BRASILEIRO S.A. PETROBRAS

DASTÉRIO DE MINAS E EMERGIA



The Superintendence Executive Exploration and Production (E&P) of Petroleo Bresileiro S.A. - PETROARAS, the brazilian oil state company le calling for seismic survey marine 2D AND 3d bids. In Brazil. Contractual conditions, written in portuguese will be on sale for interested companies et Av. República do Chile, 85, room 1104, Centro, Río de Janeiro, Brazil (Fax: 055.021.534-2714).





#### **COMPANY NEWS: UK**

# Rising costs squeeze Bank of Scotland

Banking Editor

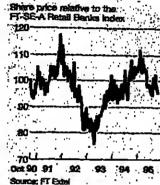
TORE 5. S. Yes

Bank of Scotland disappointed the City yesterday by disclo-sing almost flat interim operating profits before provisions for bad and doubtful dabts, with costs rising and income coming under pressure from a squeeze in margins. Pre-tax profits rose 23 per cent from £213.2m to £261.6m (\$405m) in the six months to August 31. Most of the rise came from a fall in provisions from £118.6m to £85.8m, and a £23.6m gain from the sale of 50 per cent of a

credit card venture. The shares closed 7p down at 240p as analysts said they were concerned at a lack of underlying growth. "They are having to run very fast to stand still," said Mr Richard Coleman at Smith New Court

The interim dividend is lifted from 2.13p to 2.45p, payable from earnings per share up from 10.9p to 12.6p. Mr Cole-

Bank of Scotland:



Operating profit (Em)

man said sentiment was

against the bank because it did

not have the cushion of capital

Mr Peter Burt, the bank's

chief general manager, empha-sised that it did not foresee

having to raise extra capital

for the planned purchase of 51

per cent of Bank of Western

He believed its Tier 1 ratio of

core capital to risk-weighted assets would fall from 6.6 to an

acceptable 6 per cent if Bank of

Scotland succeeded in placing

49 per cent of BankWest's

The rise in operating profits

- from £321\_4m to £339.6m -

was "acceptable" given falls in

operating profits in other UK

banks. Lending to customers

rose 18 per cent from £23.5bn to

£26.6bn, helped by growth at

Net interest incoma rose

from £460m to £424.7m, but it

the net interest margin.

NWS Bank, its finance arm.

shares with investors.

Australia in the second half.

accumulated by others.

#### Siebe £12m expansion

the acquisitive intelligent automation and prointernational controls group, has paid £12m (\$18.6m) cash for the Scada Supervisory Control and Data Acquisition business of Leeds and Northrup Austra-

The business will be integrated into Siebe's Foxboro operation, where Scada's product line will complement its

IGET BEST

cess control activities. Scada, which employs 190 people in Sydney and Brisbane, had net assets valued at 58m and made a pre-tax profit of

£1.7m on sales of £13.1m in Leeds and Northrup is owned by General Signal Corporation of the US.

#### French losses drag on **Blenheim**

Losses at its French operation caused Blenheim Group, the exhibitions organiser, to report a 32 per cent drop in interim pre-tax profits.

However the shares rose 16p to 236p as tha figures were slightly ahead of analysts' expectations and after the group made positive comments about trading in France in the second half.

Pre-tax profits in the six months to June 30, which fell from £19.2m to £13.1m (\$20m) were depressed by a £2.1m charge related to the closure of operations in Japan and the sale of the UK giftware divi-

Turnover was £92.1m (£99.7m), down 8 per cent. However after excluding exhibitions which occur every two years, revenue from continuing business was up 7 per cent.

The group also announced that Mr John Hunt, formerly vice chairman of corporate was affected by a squeeze in finance at BZW, had been appointed finance director. He replaces Mr Christopher Crow-

> The French business made an operating loss of £3.2m (against profits of £3.4m) on revenues down at £16.6m However Mr Staffan Svenby,

> managing director, said that trading in the second half would "more than compensate" for first-half losses. He added that he was "delighted" with advance sales for Batimat, the Novamber building industry exhibition which is the group's largest.

Profits from the US business fell to £4.5m (£6.9m), after the information technology sbow in Boston continued to lose ground.

UK profits increased to £8.4m (£5.6m) and profits from Germany more than doubled to £5.4m (£3.1m). The group had a net cash inflow of £12m, against an outflow of £29.5m last time, which belped reduce net debt from £44.2m to £30.4m. Earnings per sbare were 6.1p (10.8p). The interim dividend is maintained at 3.5p.

# Dividend growth with low political risk

Alison Smith considers the changing advantages of the life assurance sector

Results season results season for the UK quoted life Round-up assurance sec-

tor ended last week not with a bang but with a whimper. This was not a sign that the market was disappointed with the 8 per cent rise in the interim dividend announced by Refuge Assurance. Instead, it was simply that half-year figures produced by Refuge and some other

Because companies such as Refuge, Britannic and London & Manchester do not value their life funds at the half year. these results focus on the interim dividend and on pre-

quoted companies say little about how profitable their

businesses are.

mium income. A more complete picture of the half year came earlier in the reporting season from Prudential, the UR'a largest life assurance and investment group, Legal & General, and

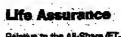
The interim Lloyds Abbey Life, which is results season partly owned by Lloyds Bank. All three reported pre-tax profit increases and higher interim dividends.

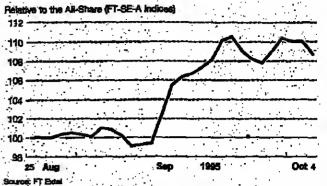
At the Pru, pre-tax profits rose by 20 per cent to £385m, (\$520m) and the interim dividend was raised 8.2 per cent. For L&G, which does not smooth its investment returns and so has more volatila results, pre-tax profits doubled to £117m, and the interim dividend increased 11 per cent.

LAL saw pre-tax profits rise 15 per cent to £197.1m and raised the dividend by 7 per

That dividend rise was the lowest in the sector, while the highest was the 20 per cent increase in interim dividend offered by United Friendly. This came after discussions with the government allowed United Friendly to restructure its long-term life funds, transferring surplus funds to share-

Britannic and Refuge have





begun similar discussions and should underpin progressive dividend policies for the future, though in both cases this is not expected to come through for

the 1995 full-year results. The rises in dividends and profits are in sharp contrast with the generally lower sales figures reported across the life assurance and pensions sector - not just among the quoted about 20 per cent of the mar-

From the point of view of shareholders, it is the dividend growth that is the attraction of the quoted life companies. "This is a yield sector and the reason for investing in it is income," says Mr Trevor May, insurance analyst at

He says that the sector is supported by the combination of dividand growth unparalleled outside the utilities sector and low political risk, which tha utilities are less likely to hava as a general election

Mr Roman Cizdyn, insurance analyst at Smith New Court, says it is not just dividend growth that lies behind tha

sector's buoyancy.

He points to the emphasis put by the Pru on its earnings from assets under management which are not affected by levels of new business and could become increasingly impor-

So at present, prospects for future abareholder income seem sufficiently bright to out weigh the gloom of lower volumes of sales. Even if trading conditions continue to be tough, the quoted companies look better placed to survive than some small life offices which lack critical mass or access to capital.

## **Aviation behind** Hunting's advance

Hunting, the aviation, defence and oil equipment group, yesterday announced an 11 per cent increase in first-half profits following a restructuring of

its aerospace activities. The group, which manages the Atomic Weapons Establishment at Aldermaston, achieved pre-tax profits of £15m (\$23.25m), against £13.5m, on turnover which increased from £559.1m to £565.8m.

The improvement was helped by doubled profits of £3.3m (£1.6m) in the aviation division, where the workforce was cut by 5 per cent to about

Mr Ken Miller, chief executive, said the aircraft repair and airline interiors businesses had increased orders, but operating margins were still unsatisfactory.

The aviation division reported first-half profit margins of 3.7 per cent and a 7 per cent return on capital. "That is unacceptable; we want a

return on capital of more than 20 per cent," Mr Miller

Pursuit of such margins has persuaded Hunting to consider disposals in the division, which includes contract services for the Ministry of Defence, a cargo airline and business aviation services.

Mr Miller was also disanpointed by margins in defence, which were unchanged at 2.2 per cent on profits of £7.2m (£7.1m).

However, an upturn is expected following the introduction of incentive targets on the management contract at Aldermaston and weapons orders for the Apache helicopter. Increased demand, mean-

while, for oilfield services helped lift profits in that area from £7.8m to Earnings per share rose 28

per cent to 5.9p (4.6p), and the

interim dividend was maintained at 4p. The shares rose 70 vesterday

# MBO set to bid £200m for most of Tarmac housing

By Andrew Taylor, Construction Correspondent

Schroder Ventures, the private equity investor, is supporting a management buy-out regarded as the front runner to purchase the UK housing operations of Tarmac one of Britain's biggest

builders. The buy-out team led by Mr John Lovering, Tarmac's former chief operating officer, is expected to bid more than £200m (\$310m) for between two thirds and three quarters of the housing business. Tarmac

initially would retain the

remainder. The offer is expected to value the business at about £300m, close to the net asset value at the end of this year. Tarmac has said.

Tarmac expects to sell about 6,500 homes this year, making it the country's fourth largest bouse builder behind Wimpey, Beazer and Barratt. Six year ago Tarmac was Britain's biggest builder, selling 12,000

bomes in 1989. The management buy-out is included in a shortlist of half a dozen 'serious' potential pur-chasers identified by Tarmac as likely to bid for whole busi-

ness, Lazard Brothers, which is advising Tarmac, is expected to send a sales memorandum providing details of the assets to the six potential bidders at the end of this week.

The shortlist is thought to include soma housebuilders as well as financial institutions. Tarmac is understood to have received about 140 expressions of interest, but bas decided to concentrate initially on those likely to buy the

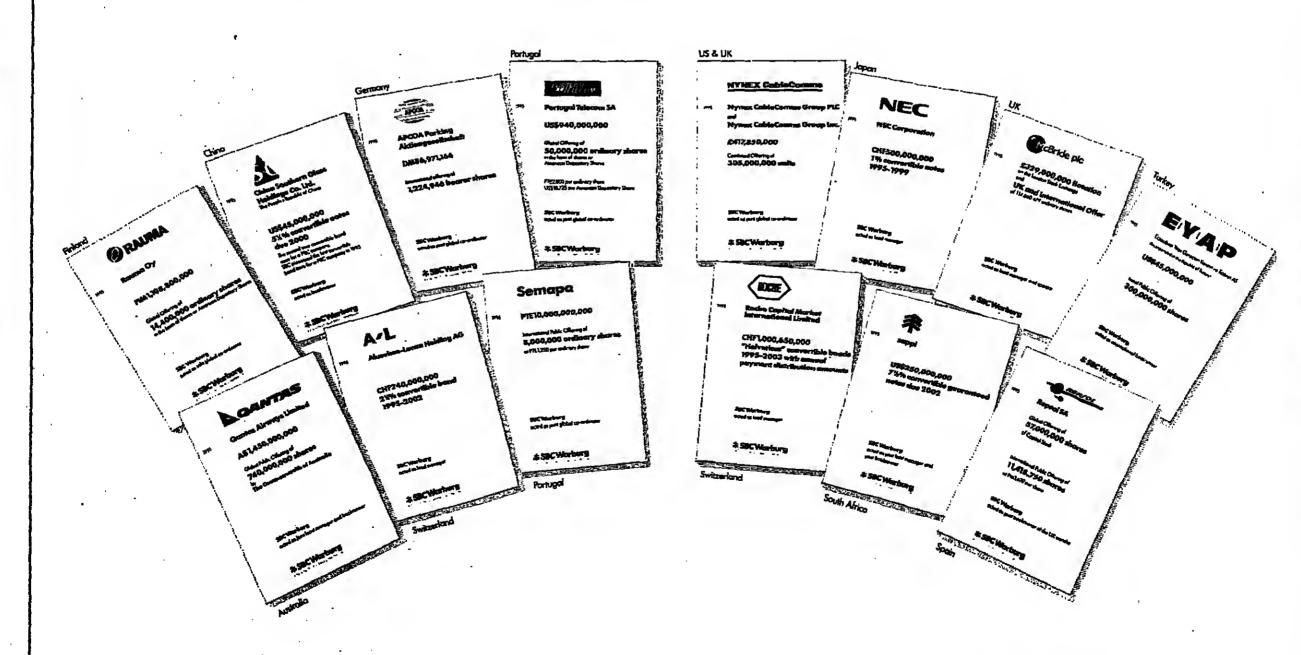
whole business. The buy-out team would expect to float the business within about three years.

#### Court halts Butte US actions

Shares in Butte Mining, the main activity of which is suing former managers and promoters for damages of up to \$1bn, fell by 20 per cent yesterday, from 2%p to 1%p after the High Court made permanent an injunction preventing it pursuing in the US courts its claims against Simon Engineering, writes Kenneth Gooding.

Butte said the decision affected only four of more than 70 defendants. It would continue its action in the US against others. In addition the ruling said Butte's claims should proceed immediately in the UK and gave leave to defend and counterclaim a claim brought by the Robertson Group, a Simon subsidiary.

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## Russian harvest heads for 30-year low

By Chrystia Freeland in Moscow

A combination of bad weather and sharply decreased invest-ment in the agricultural sector cut Russia's harvest to the low-est level in three decades, officials said this week. However, the Russian government appeared undecided on whether the country would compensate for the poor crop

by buying grain abroad. With the grain harvest now nearly complete, the country is set to produce between 65m and 66m tonnes of grain this year, down from 81.3m tonnes last year and the lowest level since the 1965 harvest of 66.3m tonnes. In the 1980s, before the collapse of communism, Russia generally produced between 120m and 130m tonnes of grain

Other big grain producers in the former Soviet Union have

Mr Franz Fiachler, the

European Commissioner for

agriculture, yesterday

announced an overhaul of tha

European Union's fruit and

vegetable sector aimed at

reducing over-production and

strengthening the marketing

"The new approach will ensure that the Ecu 1.6bn

[£1.3bn] being spent on the sec-

tor is invested in the long term

development of the industry

rather than on the disposal of

surplusea which are only of

short term benefit," Mr Fis-

He denied that the new

regime, which has bean

attacked by southern member

states, would disadvantage

anybody. The commission was

"not saving money", he said.
"We will have the same expen-

supporting producer organisa-

capacity of producers.

chler said.

By Caroline Southey

nothing approaching Russia's steep drop in production. With an expected harvest of 36.5m Russia this summer, was responsible for the poor harvest. tonnes, Ukraine has actually increased its production by 3m tonnes compared with last year, though the figure is far pelow 1980s levels.

Since the collapse of communism, the agricultural lobby and conservative opponents of aconomic reform bave annually predicted a devastating collapse in Russia's agricultural production. This year, the doomsday predictions appear to have come true and with parliamentary elections less than 90 days away, the poor harvest is already emerging as e hot political issue and as a focus for widespread public discontent with the Kremlin's eco-

Even Mr Alexander Nazarchuk, the minister of agriculture, said a lack of central government financing, rather than

far-reaching changes to the

EU's common agricultural policy introduced in 1992. The

commission has yet to tackle

The central thrust of the

changes is to reduce over production by curbing the widely

criticised intervention system

the wine sector.

nomic performance.

"Miracles do not happen," Mr Nazarchuk said. "Given the low levels of government support we could have predicted this harvest in the

On the question of imports, Mr Alexander Zaverukha, deputy prime minister responsible for agriculture, said this week that Russia "would evidently need to buy hard wheat and those types of grain which Russla does not have enough of. But Mr Nazarchuk said that the state did not have any money for grain imports.

Meeting austere budget defi-

cit targets agreed with the International Monetary Fund has emerged as the Russian government's economic priority this year and the budget makes no provisions for centralised erain imports.

According to government

We need minimum stan-

25m tonnes of grain to feed its people and an additional 14m to 15m tonnes for livastock. Domestic grain consumption has fallen dramatically since the collapse of communism, in part because of widespread slaughtering of livestock that farmers can no longer afford to

But people who rely on grain provided by the government including soldiers and residents of Russia's remote northern territories - could suffer from the poor harvest, which has driven domestic prices of grain up to world levels and

depleted state supplies. The poor harvest bas also increased the pressure on Moscow to step up funding for agriculture next year. Mr Nazarchuk said that he had already asked the Ministry of Finance to allot Rbs22,000bn (\$4.8bn) for the sector next

# Overhaul of EU fruit and veg sector planned

strawberries in Finland. The changes are expected to neutral in budget terms. While the amount spent on withdrawals is projected to fall from Ecu323m in 1996 to ECU 128m in 2001, money diverted

Although withdrawals will continue, on the grounds that surphises are an inherent feature of the sector because of its vulnerability to climatic conditions, a number of restrictions

> withdrawn will be reduced by 15 per cent over five years the starting point being the lowest average monthly with-drawal price in 1995-1996.

price iow enough so that it no longer becomes profitable but farmers to pick the harvest," an EU official said.

The second constraint on withdrawal is that producer groups will have to market 90 per cent of their produce, limiting the amount put through withdrawal system to 10 per cent by the end of five

In Greece over 60 per cent of the peach harvest between 1992 and 1994 was put into intervention and over 70 per cent of the nectarines. This was also trua of 35 per cent of France's apple harvest in 1992-93.

"Intervention should operate as a safety net rather than as a market outlet itself," Mr Fischler said, adding that the new system would guarantee that withdrawal "is used only as a last resort."

But the success of tha new system will depend on the effectiveness of producer groups, Mr Fischler proposed an "operational fund", 50 per cent of which would be financed by a levy on the traded products, and 50 per

34 35 18

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SOFTS

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■ ORANGE JUICE NYCE (15,000/bs; camp/lps)

VOLUME DATA
Open Intensit and Volume data shown for
contracts raded on COMEX, NYMEX, CBT.
NYCE, CME, CSCE and IPE Crude Of are one

INDICES

#### Alaskan mine may top zinc league

Cominco, the Vancouver-based metals group, has begun a study on expanding the Red Dog zinc and lead mine in north-west Alaska by 30 per cent, turning the mina into the world's biggest zinc producer. The expansion has been made possible by the discovery of a large new orebody north of the existing open pit. The discovery bas doubled the mine's reserves to about 130m tonnes. A decision whether to proceed with the expansion is

expected early next year.

Red Dog produced 284,400 tonnes of zinc and 46,100 tonnes of lead concentrates in the first six months of this year. Under the expansion plan, zine optout would rise to 820,000 tonnes of zmc a year. Lead production would be about 90,000 tonnes.

The new orebody has grades of 14 per cent zinc and 3 per cent lead, slightly lower than the deposit now being mined. Cominco last month described the new discovery as "flat lying and amenable to open-pit mining with a low stripping ratio." The extra reserves are expected to extend the mine's

life to at least 40 years. Cominco owns Red Dog, and pays annual royalties to the NANA Regional Corporation, an agency which promotes economic development among Alaska's Eskimos. Under the agreement, NANA will eventually acquire a 50 per cent stake in the mine.

● BHP of Anstralia is to develop the A\$450m Cannington silver-lead-zinc mine in north west Queensland, snhject to port and rail agreements and sales contracts being satisfactorily completed. Start-up is scheduled for late 1997 and it will produce 24m troy ounces of silver a year in 250,000 tonnes of lead concentrate and 100,000 tonnes of zinc concentrate.

896 893 27,034 5,176 928 924 29,027 2,543 946 943 14,256 414 965 960 4,002 32 978 977 12,000 2,100

+10 1285 1274 30,054 4,011 +9 1319 1370 18,991 1,550 +6 1339 1333 8,067 139 +5 1364 1357 3,526 10 +5 1363 1376 5,324

5,899 1 71,863 5,711

2350 12,337 1,770 2253 7,278 270 2205 3,477 19

Prev. day 120.41 119.65

# London sugar futures volume hits record level in September

By Alison Maitland

Trading volumes in white sugar futures on the London Commodity Exchange hit a record last month as fears grew of a shortage of good quality supplies from the European Union. The exchange said yesterday

that volume in the No 5 white sugar contract was rapidly cetching up with its two most heavily traded contracts in

cocoa and coffee.

It said 62,694 lots were traded in September, up 93 per cent on August and 45 per cent higher than a year ago. The previous record was 59,567 lots in February. About 99,000 lots

exchange independent. The \$10m increase in the Nymex's two-month-old offer brings lts value to about \$95,000 a seat for the smaller

At the same time, the Futures Industry Association, grouping powerful futures clearing and brokerage firms, is increasing pressure on its members to vote against the CSCE's planned move to New Jarsey and to give the Nymex

The actions come just ahead of a non-binding CSCE membership referendum next Monday, which will give the first indication of how much rankand-file support there is for a New Jarsey move. Traders say were traded in cocoa futures and 89,000 lots in robusta coffee last month.

The sugar trade has become increasingly active in the market recently because of concern that high quality EU sugar, the base of the No 5 contract, may be taken off the export market and put into intervention to boost atocks after drought damaged har-

vests this year and last. E.D. & F. Man, the London commodities bouse, said that although global white sugar supplies were plentiful, good quality EU white sugar might

become more scarce. Man has projected an EU harvest this year of 15.6m tonnes of white sugar equiva-lent, not much higher than last year's 15.2m tonnes and well down on the bumper crop of 17m tonnes the previous year. "Because a lot of sugar was taken out of stock last year

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there may be a re-accumula tion of stocks in member states," said Ms Angela Mutton, analyst. The London exchange also

attributed the increase in sugar trade interest to volumes reaching "an acceptable level that inspires confidence". The contract, launched in 1983, had open interest - unmatched trades - totalling 27,417 lots last month, nearly twice the level of a year earlier.

#### Nymex raises bid for neighbour

The New York Mercantile Exchange has boosted its bid for its neighbour, the Coffee, Sugar and Cocoa Exchange, to \$48m as CSCE executives continue their battle to keep the

Nymex also says that in the event of a merger, CSCE mem-bers will be included in the state-of-the art trading facility the Nymex is currently building in Manhattan. It had previously eaid the smaller exchange might hava to remain in older quarters at the World Trade Centre.

offer serious consideration.

the vote will also be viewed as an indirect comment on the

Nymex overture. CSCE executives have flatly refused to negotiate with the

Nymex, saying an agreement with the smaller New York Cotton Exchange, and with the State of New Jersey, preclude merger negotiations. However, Nymex executives and dissident CSCE members view that position as a diversionary tactic by CSCE staff, who stand to lose their jobs if a merger with the large oil and metals exchange is consummated. Last year the Nymex and the Comex successfully merged,.

with members at both exchanges pleased with the outcome. However several former Comex semor staff executives are still without jobs.

The refusal by senior staff and the CSCE's board of managers to seek membership input on either the Nymex offer or the move to New Jersey has angered both floor traders and brokerage firms. They have pressed the exchange to schedule the referendum and distribute details of the financial package being offered to the exchange by the State of New Jersey.

Now CSCE members find themselves the object of intense lobbying campaigns

JOTTER PAD

ahead of the vote. New Jersey, seeking to pluck a prime market from New York, is believed to have to have offered the CSCE first \$17m, and more recently, \$35m to help finance the move.

CSCE management has retained the investment banking firm Rothschild to assess the value of the exchange, and will present that assessment at an information meeting today. In a letter to members this week, Mr Laurence Mollner chairman of the FIA, urged senior executives of futures

hrokerage firms to give close attention to the issue and not to delegate their CSCE vote to junior staff or floor personnel. "The FIA continues to question whether any benefits to a move by the exchange to a separate location in New Jersey outweigh the drawbacks," the letter said. "The move destroys

tha synergy of common loca-; tion and is likely to negatively affect interest in CSC markets by the New York Community; At stake, futures industry executives say, is the opportunity for a single, consolidated commodity exchange in New York that would provide signiflcant cost-savings to customers and trading firms and position the markets for competition globally.

#### COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE ALUMINIUM, 98.7 PURITY (5 per tonne)

Kerb closs ALUMINIUM ALLOY (5 per toru Close Previous High/low AM Official 1510-20 Kerb close LEAD (\$ per tonne) Close Previous 596.5-97.5 811-12 613/608.5 609-10 610-11 Kerb close

MICKEL (5 per torme) Close
Previous
High/low
AM Official
Kerb close
Open Int.
Total delty turnover 8155-60 8025-35 8150/7960 8045-50 9120-30 7900 7900-10 44,526 8,414 TIN (\$ per tonne) High/low AM Official 6260-70 6340-5 6250-60

Kerb close Open Int. Total daily turnover 19,654 4,221 ■ ZINC, special high grade (5 per torne) 1024-25 1028-27 1027/1013 1017-18 1001-2 1003-4 992-92,5 Kerb close Open int. 78.096 Total daily turnover 15,153 M COPPER, grade A (\$ per torine) Close Previous High/low AM Official 2865-68 2882-86 2857/2656

LME AM Official 2/\$ rate: 1.5795 LME Closing 5/\$ rate: 1.5840 Sport 1.5843 3 mates: 1.5814 6 mates: 1.5782 9 mates: 1.5755 HIGH GRADE COPPER (COMEX)

+1.20 +1.20 +1.20 +0.95

PRECIOUS METALS III LONDON BULLION MARKET (Prices supplied by N M Rothschild)

\$ price 382.75-383.15 382.50-382.90 382.50 383.00-383.40 Day's High 383.00-383.40 Day's Low 382.40-382.80 Provious Close 382.10-382.50

US eta equiv 533.50 537.10 541.35 551.70

for fruit and vegetables, which allows producer groups to withdraw, and in most cases destroy, produce from the market when the price falls to a certain level. Allied to this, the proposals

seek to boost the role of pro-ducer organisations, which traditionally served mainly for operating tha withdrawal system. "The aim is to inject support into the producer groups to make them into real producer groups and to ween them off the withdrawal system," an EU official said.

The proposals also address

Preclous Metais continued

PLATINUM NYMEX (50 Troy oz.; \$/troy oz.)

4168 +2.7 416.8 415.0 1.373 415.8 +2.2 416.5 414.5 20,339 416.3 +2.2 417.0 419.3 1.409 417.3 +2.2 417.3 417.0 1.374 417.3 +2.2 17.3 417.0 1.374

M PALLADIUM NYMEX (100 Troy OZ.; S/troy OZ.)

538.0 528.0 59.27 538.5 538.5 24 544.5 534.0 11,132 6,376

17.24 61,742 17.15 39.585 17.09 20.305 17.04 18.277 17.00 9.716

16.01 47,469 15.95 51,521 15.79 17,951 15.74 9,105 15.69 6,863 15.70 3,023 149,946

14,422 8,582 1,852 467 982 872 28,958

12,449 6,758 4,530 1,567 516 162 25,617

Oct Boy Duc Jan Apr Jul Total

373

Hav Jan Har Hay Total

+3.9 +3.7 +3.7 +3.7 +3.7

+0.02 +0.02 -0.01

HEATING OIL MYMEX (42,000 US galls.; c/U5 galls.)

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1.805 27,491 29,256 1.900 24,075 12,469 1.930 21,109 6,006 1.836 11,532 2,720 1.790 9,048 1,254 1,715 5,208 515

51.40 24.114 9.751 50.48 12,780 2.172 50.45 6,588 742 50.70 2.594 1.77

MATURAL GAS NYMEX (10,000 mm8tu.; S/mm8tu.)

Latest Day's price change 1.845 +0.038 1.925 +0.023 1.945 +0.075 1.880 +0.020 1.795 +0.012 1.715 +0.004

MEX (42,000 LG galls.; c/LS galls.)

Day's change -0.08 -0.10 +0.10 +0.35 +0.55

383.2 +0.5 383.7 383.5 1,276 573 384.2 +0.4 - 100,583 11,015 385.6 +0.4 386.2 385.0 22,187 341

■ GOLD COMEX (100 Troy oz.; \$/boy oz.)

the EU's much-maligned sysditure as in the past. We are tem of standards for fruit and vegetable. To avoid "over interference" in the lives of citizens, The measures go some way towards completing the reform could be products. Mr Fischler suggested there could be derogations for some

Dec Mar Jea Total

Oct Dec Jan Mar

**ENERGY** 

dards but we also need to accommodate traditional patterns of consumption," an EU official said, citing as an exampie the production of small

to producer groups will be up from zero now to Ecu 257m in

are spelled out. The price paid for products

The Commission knows that some producers grow for withdrawal. It has pitched the

cent by public funds.

GRAINS AND OIL SEEDS

-0.20 114.90 114.80 2.504 - 117.40 117.30 1,720 -0.05 118.75 119.30 1,170

48114 64,947

-0.05 121.75 121.35

426

-1/2 310/6 308/2246,826 -2/0 318/2 315/4127,577 -2/0 320/6 317/6 20,403 -1/4 319/6 316/6 37,319 -1/6 253/4 292/0 4,218 -1/0 277/0 275/4 16,113

+2/2 540/0 635/4 85,567 25,045 +2/0 649/8 645/5 28,061 4,182 +1/4 855/0 554/6 14,312 2496 +1/4 864/4 661/4 7,355 589 +1/6 669/4 665/4 7,774 734 -1/0 569/4 665/4 7,774 734

153,000 34,365

MAIZE CBT (6,000 bil min; cents/56lb bushel)

107.75 +0.05 107.85 107.60 110.85 +0.05 111.00 110.85 112.65 +0.05 113.00 112.60 115.40

III SOYABEAN OIL CET (60,000lbs: cents/fb)

SOYABEAN MEAL CET (100 toris; \$/ton)

POTATOES LCE (Extenne)

192.5 260.0 262.2 325.0 350.5

26.89 +0.12 25.83 28.62 3.365 26.72 +0.04 26.90 26.89 37.268 26.75 - 26.95 26.90 8.769 26.81 -0.04 27.05 26.90 8.769 26.83 -0.12 27.15 26.90 4.771 26.85 -0.14 27.01 26.85 3.013

191.4 +21 191.5 189.3 4.583 4.657 194.2 +1.3 194.5 192.3 45,803 10,294 195.6 +0.9 195.9 194.0 10,025 1.521 197.2 +0.7 197.5 195.6 7.296 1.321 198.2 +1.9 196.2 195.5 4.191 215 199.9 +1.9 200.0 197.3 3,039 507 75,903 18,939

2.5 205.0 192.5

1795 1800 1750 1741 1670 1500 -45 -57 -51 -70 -30

M SOYABEANS CET (5,0000u min; certa/600 bushet)

■ WHEAT LCE (£ per tonne)

4851/4 4841/4 458 4117/4 4141/4 426

H BARLEY LCE (E per tonne)

# MEAT AND LIVESTOCK

34 78 143 COFFEE LCE

LONDON SPOT MARKETS CRUDE OIL FOB (per barrel/Nov)

Brent Blend (dated)	\$16.32-6.36	-0.240
Brent Blend (Nov)	\$18.01-6.03	-0.190
W.T.I. (1pm est)	\$17.38-7.38w	-0.255
■ OIL PRODUCTS NWE	prompt delivery C	# (tonne)
Premium Gaspline	\$171-172	-2
Ges OR	\$150-151	+1
Heavy Fuel Oil	\$83-85	
Naphtha	\$151-153	
Jet fuel	\$177-179	_
Diesel	\$155-158	+2
Petroleum Argus, Tel, Landai	n <b>(</b> 0171) 369 8792	
OTHER		
Gold (per troy oz)?	\$382.95	+0.65
Silver (per troy oz)	534.5c	-1.0
Platinum (per troy oz.)	\$414.75	+1.50
Paradium (per troy oz.)	\$136.50	-3.10
Copper (US prod.)	Ung.	
Lead (US prod.)	41,750	
Tin (Kuala Lumpur) Tin (New York)	15.74m	-0.12
	300.5c	+2.0
Cattle (live weight)†	123.98p	-2.63*
Sheep (live weight)†& Pigc (live weight)†	101.33p	-0.8g*
	97.70p	+1.06"
Lon. day sugar (row)	\$290.10	+2.00
Lan. day sugar twis)	\$372.00	-0.80
Barley (Eng. feed) Maize (US No3 Yellow)	£114.50x	
Mineat (US Dark North)	£104.0w	
	Unq.	
Rubber (Nov)♥ Rubber (Dec)♥	89.50p	+0.50
Rubber (KLRSS No.1)	89.50p 340.0m	+0.50
Coconut OII (Phil)5		+3.0
Palm Oil (Malay.)§	\$715.0u \$620.0z	
Corr. (Philip	3620.0Z	+7.5

■ REUTERS (Base: 18/9/31=100) ■ CRB Futures (Base: 1967=100) Oct 3 Oct 2 month bgo 240,49 240,35 238 48 GSCI Spot (Base 1970=100)

	Sett	Day's			Opno	
	prior	change	High	Lon	lint	Yol
Oct	63,729	-0.200	63,850	63,475	11,789	2,566
Dec	65,600	-0.050	65.950	65,600	25,319	5.520
Feb	85.375	+0.100	B5,400	65,100	13,376	1,948
Apr	65.900		55,925	85,700	7,312	658
Jest	61,975	+0.025	62,050	61.900	2,553	291
ANG	60.950	+0 100	61.000	60.925	1,000	90
Total					81,502	11,063
H UV	HOGS	CME (	10,0004	es; cent	s/lbs)	
Oct	45.950	+0.175	46.050	45.660	8.151	2.332
Dec	46.025	+0.200	46.125	45,650	12,281	2,756
Feb	48.275	+0,275	48,350	47.800	8,888	670
Apr	47.200	-0.275	47,450	47,000	2.096	85
Jua	51.500	-0.250	51.750	51 050	2,527	187
Aug	49.800	-0.050	49.850	49.650	1,048	63
Total					33,490	8,426
POF	K BELL	JES CA	AE (40.0	000lbs:	cents/fb	<b>12)</b>
Feb	60.425	-0.150	61.200	60.000	5.548	993
Mar	60,500	-0.150	61,050	80,200	474	55
May	61,250	-0.250	81,700	60.800	97	3
Jul	62.475	-0.500	62.475	61,600	421	8
Aug	59.800	-0.350	0	58.800	32	2
Total					6,667	1,080

LONDON TRADED OPTIONS 34 78 143

Brent Blend (dated)	\$16.32-6.36	-0.240
Brent Blend (Nov)	\$18.01-6.03	-0.190
W.T.I. (1pm est)	\$17.38-7.38w	-0.255
OIL PRODUCTS NIVE	prompt delivery C	# (torne)
Premium Gasoline	\$171-172	-2
Bes OR	\$150-151	+1
Heavy Fuel Oil	\$83-85	
Vaphtha	\$151-153	
Jet fuei Diesel	\$177-179	_
	\$155-156	+2
Petroleum Argus, Tel, Landa	n <b>(</b> 0171) 369 8792	
OTHER		
Bold (per troy ox)₽	\$382.95	+0.65
Silver (per troy oz)	534.5c	-1.0
latinum (per troy oz.)	\$414.75	+1.50
Paradium (per troy oz.)	\$136.50	-3.10
Copper (US prod.)	Ung.	
ead (US prod.)	41,75c	
in (Kuala Lumpur)	15.74m	-0.12
in (New York)	300.5c	+2.0
attle (live weight)†	123.98p	-2.63*
Attitigiew evil) qeerk	101.33p	-0.8g*
ige (live weight)†	97.70p	+1.06*
on, day sugar (row)	\$290.10	+2.00
on, day sugar twis)	\$372.00	-0.80
Barley (Eng. feed)	£114.50x	
faize (US No3 Yellow)	£104.0w	
Wheat (US Dark North)	Unq.	
kubber (Nov)♥	89.50p	+0.50
lubber (Dec)♥	89.50p	+0.50
lubber (KL RSS No1)	340.0m	+3.0
Coconut OII (Phil)§	\$715.0u	
elm Oil (Melay.)§	<b>\$6</b> 20.0z	+7.5
iopra (Phil)§	457.0y	
oyabears (US)	184.Du	+1.0
otton Outlook'A' index	97 90-	-0.00

#### No.8,884 Set by GRIFFIN

**CROSSWORD** 

ACROSS 1, 4 Ruined Danny's cooked meal (6.6) 8 Not one coin victim drops I'm

giving criminal (7)

8 Dislike companion cutting with blunt end of axe (7)
11 Corrupt grown-up scoffed without hesitation (10)
12 Break in. thanks to yours 13 Lie about Job Centre's second attempt (5)

attempt (5)

14 Musical words in title or otherwise must be black (6)

16 Disturbing boast by Parisian back street vandal (8) 18 A little unwell, I lack colour

(5)
20 Piece of paper petticoat (4)
21 Art Room's first to show
"Interplacetary Traveller" 23 As we bothered to ring, com-

piler must be dreadful! (7) 24 Unearth version of Bible with a goddess (7)
25. 28 One saddled with a job as

1, 13 down Performer taking care to avoid a sore throat? 2 Old composer takes fresh look Knowing Jaguar car is origi-

angry (5)
6 Has audacity to draw an item
of clothing (7)
7. 22 Much at fire is destroyed. always something painful 10 Prisoners escaping can, with a stroke of luck (9) 13 See 1 down 15 Dancer and bouncer are in trouble (9)
17 Put forward after work is

ers, being biggest (7)
21 Man wrong to embrace doctor

First person to scold when

Solution 8,883



مكنامن الأجل

The m នៅដូច្នេះ KARNAT Key info 192.000 5 Capital and population

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# The Indian State of KARNATAKA

# Agricultural state turns to microchips

The right noises have been made, but no action has followed, reports Alexander Nicoli

Information technology companies, seeking to capitalise on India's growing markets and its large pool of young talent, have made Bangalore, capital of the southern state of Karnataka, their main centre. A cluster of companies, sup-

plying software and computer systems to customers in India and abroad, make up what is perhaps the most globally competitive industry in the country. Though their number remains quite small and the range of their activities is still limited, the industry is acquiring depth as new companies spring up to produce software or provide other services for the computer companies which are already established.

If this process of deepening continues, Bangalore will be able to justify being called India's Silicon Valley.

However, there are many hurdles in the way of the high technology revolution, of which the biggest is the madequacy of infrastructure and public services - a nationwide malaise from which Bangalore, even though it has a number of attractions compared with other Indian cities, has not escaped. Power, telaphone lines, water supply, poor roads, traffic, road safety and lack of an international airport are all

cited by business as problems. Thousands of young computer professionals struggle along terrible roads to get to their jobs in software factories which their employers insulate from the world outside by generating their own power. leasing special telephone lines and creating work environments which are conducive to cerebral pursuits.

In Karnataka, power is the biggest problem. According to the chief minister, Mr H. D. Deve Gowda, 9,000 MW of power will be needed by the year 2000, but the state currently produces only 3,600 MW. Mains power is unreliable, so industries which depend on constant supply and voltage, as forced to install their own diesel-power generators.

Nevertheless, people who have mada Bangalore their base have few regrets. Because the city is 920 m above sea level, its climate is more temperate than those of the other Indian metropolitan centres. The appeal is beightaned by parks, attractive houses, relatively low property prices, and a cosmopolitan atmosphere. "This is by far the nicest city

in which to live and work in

India. There is no comparison," says Mr Xerxes Desal, managing director of Titan industries, a watch and jewellery manufacturer which has its headquarters in Bangalore.

The city's emergence as a centre for computer technology stems from decisions of the central government in New Delhi shortly after India's independence from British rule in 1947. Faced with potentially hostile neighbours to the north in Pakistan and China, the government sought to locate strategically sensitive indus-

ders, and away from the coast. Bangalore was therefore an obvious place to hase the Indian Air Force as well as a number of other public sector institutions which were seen as central to India's development under the Congress Party's doctrine of socialist "self-reliance".

tries well away from the bor-

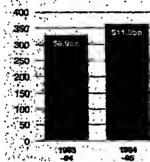
The city remains the base for public sector giants such as Hindustan Aeronautics, Hindustan Machine Tools, Bharat Electronics, Bharat Earth Movers. Indian Telephone Industries, and the Indian Space Research Organisation, which develops and launches satellites for civilian purposes.

Although some of the public sector companies no longer flourish, and are hardly at the cutting adge of technology. they did spawn the establishment of a number of universities, institutes and colleges providing engineering and scientific training.

The presence of such compa nies and educational establishments helped the computer industry to set up around Bangalore. For exampla, when Titan industries was founded in the 1980s, it deliberately targeted the employees of Hindustan Machine Tools, which also makes watches.

Mr John Whiting, president and managing director of Tata Information Systems, a joint venture between the Tata group and International Business Machines of the US, says: We came here primarily because of the talent being produced in Bangalore from its educational establishments. It

Mut state domestic product (Rs billion)



although there is some concern over the number of qualified people coming on to the job market."

Computer industry executives caution, bowever, that while Bangalore is the centre. the industry pulls in employ-ees from all over the country.

Mr Som Mittal, managing director of Digital Equipment (India), which is 51 per cent owned by Digital of the US. says: "We don't specifically choose people from here. We do a national search, although people from Bangalore are obviously easier."

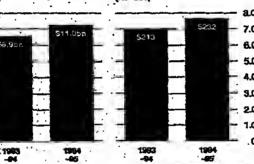
Mr N.R. Narayana Murthy, chairman of Infosys, a fastgrowing software company, says its new recruits are a mixture. "We recruit elsewhere but we also have a responsibility to create jobs for Karnatake," he says. The company seeks graduates in engineering and communications applications from all over India.

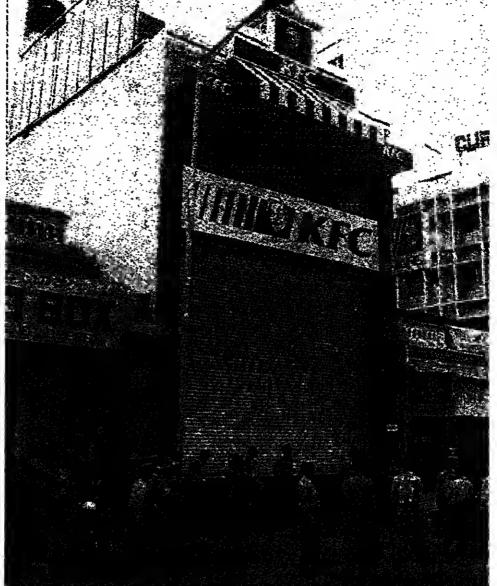
As an indication of the demand for jobs in the industry. Infosys screens 4,500 people each year from whom it selects 200. Some companies are recording very rapid growth: Tata Information Systems, for example, is thought to be doubling its revenues each year, and will have about 1,000 employees at the end of 1995 compared with 450 at the beginning of the year. There are two factors behind

the growth of the computer industry. First, the liberalisation policies of the central government of Mr P. V. Narasimha Rao, the prime minister. From 1991 onwards, the government drastically reduced the requirements on the private sector to seek official approvals, cut import duties and adopted a more open approach to foreign investment.

Secondly, the computer industry did not exist when most government regulations were written, and therefore its activities are relatively free. Nevertheless, all companies still need to hattla with bureaucracy for their basic needs such as land and services from utilities, and corruption is a serious problem in

(DOO' sft)





The small Kentucky Fried Chicken restaurant in Bangaiore, the chain's first in India, has had to be protected by police and security guards after threats. See 'A finger-lickin' uproar' on page 2.

almost all states The advent of the computer industry has yet, however, to make much of a dent in the overall economic picture for Karnataka, which remains primarily an agricultural state, producing large amounts of foodgrains, oilseeds, sugar and cotton as well as higher value produce such as coffee, shrimps and silk.

The predominance of agriculture to some extent insulated the state's nearly 50m people of whom about 76 per cent live in rural areas - from the industrial recession which bit India after the financial crisis of 1991. During the first four nomic growth in the state was 5.1 per cent. However, the figure was 4.2 per cent in the 1993/94 financial year and the state estimates only 3.5 per cent in 1994/95 because of an unfavourable monsoon.

The importance of farmers, who benefit from many substdies, tends to put political and financial constraints on the efforts of the state government to tackle Karnataka's pressing infrastructural problems. Farming leaders in the state

have also adopted a strong the proposal of Cogentrix of stance against foreign investment. They led a fierce though unsuccessful campaign against the local operations of Cargill of the US and are now seeking to eject Kentncky Fried Chicken of the Pepsico group,

However, Karnataka is actively seeking foreign investment. The government of Mr Deve Gowda, who is from the leftist Janata Dal party, took over last December from a Congress party government in one of a series of state electoral sethacks for the Congress Party, which controls the federal government in Delhi.

Mr Deve Gowda has made quarrel with the liberalisation policies of the central government and has actively joined in the competition among states to lure foreign investment. In spite of the state's efforts, only about \$230m of foreign direct investment has come in since the economy was opened up in 1991, according to central gov-

ernment figures.
The chief minister has made improvement of infrastructure his main priority, and to this end has put his weight behind

the US to build a 1,000 MW power plant on the Karnataka "This government has made it clear that it will proceed with an open mind to invite private investment, taking advantage of the new economic policies, and see that the power shortage we are facing should be sorted out," Mr

Deve Gowda says.

The arguments over Cogentrix have assumed extra significance following the decision of the government of the neighbouring state of Maharashtra to scrap a power project which was already under construction by a consortium led by the US. Cogentr actively countering concerns raised by environmentalists, but is still awaiting approvals from both state and central governments. Businessmen say that

although Mr Deve Gowda has given all the right signals on infrastructure, he has yet to deliver any real improvements. They see this as the crucial factor in determining whether the state, and Bangalore in particular, will retain its competitive edge.

3

By Mark Nicholson

# Top of the state's wish-list

Even with a decent monsoon, demand exceeds supply at peak periods by at least 17 per cent

Until the monsoon rains swept in with a belated, but providentially torrential appearance last month, Karnataka was staring at its worst power shortage in recent history. Mr J. H. Patel, Karnataka's deputy chief minister who is responsihle for power, said cuts of between 50 and 70 per cent would have been imposed. Such is Karnataka's depen-

dence on hydro-electric power. fed by reservoirs filled by the annual monsoon. Of the state's installed capacity of 3,377 MW, 71 per cent comes from its mostly ageing hydro-electric stations, some of which were built under the Britiab Raj. The remaining power is either thermal plants, provided by the central government's National Thermal Power Corporation or, increasingly, by captive power units huflt by industrialists.

But added together, even with a decent monsoon, Karnataka cannot meat its needs. Power cuts are already routine. for demand exceeds supply at peak periods by at least 17 per cent, not allowing for suppressed demand. Reliance on hydro-electric power makes even these supplies volnerable to the weather, and the state requires heavy investment in thermal stations to provide more "base" power. Like every other state in India, neither the government nor its state electricity board has money to finance new power projects.

According to Mr H. R. Gupta, chairman of the Confederation of Indian Industries in Bangalore, energy-intensive industries are already shying away from Karnataka because of the shortage of power.

Power is "our priority number one," says Mr Patel. "That is why we have taken the decision to invite the private sector and foreign capital. We need at least Rs250hn (\$7.8bn) of investment".

ment opened the country's power sector to private investment. Thus, when Mr Deve Gowda's Janata Dal party took power late last year, it inherited a clutch of private sector proposals for power plants. To date the state has received 28 such proposals, 19 thermal and 9 hydro-electric, for an envisaged total of 5.494 MW.

Of these, one matters above all others: the proposal from Cogentrix, the North Carolinabased power development com-

pany, to build a 4x250 MW coalfired plant on the coast at Mangalore. Cogentrix's partner in the project is Hong Kong Light & Power, which holds a 40 per cent stake in the Mangalore Power Company.

The Cogentrix project is one of eight power projects in India to have been offered a central government "counter guarantee", whereby the centre undertakes to assure payment for the privately-generated power from the mostly lossmaking state alectricity boards, the power purchasers. The project, on which Cogen-trix began discussions in 1992. is further advanced than any other big project in the state. It may be the most important test case for foreign-backed private power projects in India since the state government of Maharasthra cancelled tha Enron-led Dabhol power project in August.

Cogentrix, like Dabhol, has had to contend with a change of stata government. It has, similarly, attracted opposition from Hindu nationalist groups and environmentalists. But unlike Dabhol, the Mangalore project has the backing of the new stata administration, "Cogentrix will be cleared in another three to four months,' says Mr Patel.

Formally, the project still requires environmental approval and negotiation of the terms of the counter-guarantee with the central government. Both, says Mr Ron Somers, Cogentrix managing director. can be achieved by the end of this year. He bopes thereafter to tie up the financial package for the project by early next

After the Enron affair, Mr Somers is acutely eware of the need to remove any suspicion of "cost padding" - one of the charges levelled against the project by the Hindu nationalist Bharatiya Janata Dal party in the state. They point to the fact that when initially conceived in 1992, the project was expected to cost Rs50.8bn, but that this subsequently fell in 1993 to Rs43.8bn - evidence. they claim, that the project's costs must have been inflated.

Cogentrix, however, says that the initial project envisaged a 6x167 MW configuration and that it was the revision to a 4x250 MW format which led to the cost reduction. Opponents of the deal level

further charges - that Cogentrix is importing coal, when India has ample coal reserves, and that the project will harm the environment around its Mangalore site. To the first, Mr Somers answers that onported coal is twice as efficient as Indian coal, and that he could To page 2.

#### KARNATAKA **Key information**

Area 192,000 sq km

Capital and

population Bangalore, population 4.1m out of a total state population of 45m (1991 census). 31% of the state's population is

urban. Other large towns Bellary, Bijapur, Shimoga, Raichur, Mysore, Mangalore

Main industries Electronics, computer software, telecommunications equipment, aeronautics, machine tools, watch-making, electrical engineering, aluminium, steel

cement, sugar, food processing,

textiles, mining, seraculture. Main crops Rice and other foodgrains, sugarcane, coconut, groundnuts, coffee, cotton.

Language Kannada is the language of administration and is spoken by about 66% of the people. Other languages include Urdu (9%). Tatugu (8.17%), Marathi (4.5%), Tamil (3.6%) , Tulu and Konkani. English is widely spoken.

growth (%)

E Currency Rupees (Rs) divided into 100 paisa, 21=Rs53.73 at beginning

of October. Import and export of local currency is prohibited. Import of foreign currency is unrestricted. but export can only be effected up to the amount declared on

Foreigners generally required to pay hotel bills in foreign CLITTERCY International credit cards are widely accepted in big cities, although can be more expensive than paying by cash. Travellers cheques acceptable.

Visa requirements Required by all foreign nationals Obtainable from high consulates. In London, the embassy is at India House, Aldwych, WC28 4NA tel (0171)

Air links No international airport, but flights to other main Indian cities

# Health Control Yellow fever: Vaccination

required if arriving within six

25

20

days, from or via an infected rea, or from most African, Central or South American Precautions recommended

also against cholera, malaria, typhoid, polio and tetanus. Infectious hepatitis (A and B) is common, so precautions are recommended, intestinal upsets

tailed power generation capacity (000 megawatts)

Imilian tonnesi 1.0

are ublquitous. Rabies is

Working hours Business hours: Government offices: 0930-1700 Mon to Fri; 1000 to 1230

Seturday. Offices: 0930-1700 Mon to Fri, hatf-day Saturday Banks: 1000-1400 Mon to Fri, 1000 to 1230 Set Shops: 0930-1800 Mon to Sat.

Public holidays January 1 (New Year's Day), January 28 (Republic Day), August 15 (Independence Day), October 2 (Mahatma Gandhi'a birthday) and major Hindu.

Moslem and Christian holidays.

■ Climate Hot and tropical, with

temperatures in Bangalore seldom fatting below 15degC in winter, and going above 34 in April, the hottest month. Summer average maximum temperature 33degC; winter average maximum 26deoC. Heaviest rainfall in October, with up to 200mm. Dryest months January to March: best months to visit are from the end of the monsoon in November to the beginning of April.

**Time** Five hours and 30 minutes ahead of GMT

**Government** Governor: Khurshid Alam Khan Chief Minister, Haradanahalli Doddegowda Deve Gowda, since December 1994

Useful contacts Kametake Chamber of Commerce and Industry: Kamataka Chamber Building Huthii 580 020, tel (636) 63102, fax (836) 365346, president G.B. Hampannavar, secretary G.B. Goudappagol.

Sources: Reuters, Statesman's Year-Book BV Country Report, Walden Country



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Chief Minister H. D. Deve Gowda

# A pragmatic 'man of the soil'

When Mr H. D. Deve Gowda of Karnataka last December. he wasted no time in launching a campaign to attract investment

Since he is from the leftist Janata Dal party, this was among the first indications that the enthusiasm of the central government for opening up India to foreign investment had spread to eaders of other parties. The Karnataka election result was a reverse for the Congress party which controls the central government, but tha new chief minister's pragmatism suggested nomic reform might

outlast that government. Mr Deve Gowda was soon seen at the World Economic Forum in Dayos, Switzerland, and at the Confederation of Indian Industry's annual



Mr H. D. Deve Gowda

conference in Calcutta. sending signals that Karnataka was open for business. Such gatherings appeared an unlikely environment for a 62-year-old son of the soil". He fought long and hard

through India's complex political web to reach his position. Seen as a man with his feet firmly on the ground his straightforward approach has been welcomed by husiness in Bangalore even though it bas yet to produce concrete improvements in the state's creaking infrastructure.

We are lagging behind in infrastructure for developmental activity, including industrial development," Mr Deve Gowda says. He has made tha state'a shortage of power his main priority for action. The government, be says, "will create and provide all the infrastructural facilities. including land, water . . . We do not want to create an atmosphere of delay." Mr H. R. Gupta, Bangalore chairman of the Confed-

eration of Indian Industry. says of the chief minister: "I feel be's doing a great job. Mr Deve Gowda wants industrial development in the state and is accessible. He's taking every opportunity to spare time and meet people Mr Deve Gowda had been

due to visit the US and Britain shortly to continue his campaign for foreign investment - competing with other chief ministers who are making similar visits. But tha trip was postponed when he came under domestic political essure because a senior civil servant in the state government was sentenced to a month's jail because the state had failed to enact an order of the Supreme Court in

Alexander Nicoll

remains considerably cheaper than Bombay of Delhi - a fac-

tor which has encouraged com-

panies, like Britannia, the

indian foods group, to move

headquarters from Bombay, and drawn others, like Moto-

rola, the US communications

and software group, and Caze-

nove, the British merchant

bank, to establish new bases in

the clty. Some expatriates

today choose to live in Banga-

lore, where their bousing pack-

ages stretch further, while

The result has been a sharp

rise in land and rent prices

over the past three to five

years. On average, land prices

in central Bangalore - gener-

ally meaning within three or

four kilometres of MG Road,

the city's prime commercial

street - have shot up in the period from around Rs1,800 a

square foot to between Rs6.500-

Rs10,000 a square foot. Rents in

prime commercial areas have

risen from around Rs15 a

month a few years ago to

nearer Rs60 to Rs100 a square

Residential prices have fol-

lowed suit. Rents for modest,

reasonably central two-bed-

room apartments have more

than doubled to Rs50,000 to

Rs80,000 a month in the period,

Where couples might four or

five years ago have managed to

find good, central houses for

foot today.

working in Bombay,

Property: Bangalore is an estate agent's paradise, reports Mark Nicholson

# Prices soar 200% in a year

Since the '80s, successive waves of newcomers have pushed demand ever upwards

These are such good days for Bangalore's estate agents that everyone wants in on the act. "Everybody here now seems to be an estale agent," says one real estate agent in the city centre. "From the lift operator to the teaboys in the street all sorts of people are calling up to find out from us which properties are available, then trying to move in and broker the deals themselves."

By some estimates, rent and land prices for Bangalore property have trebled or quadrupled in the four years since india's liberalisation policies gave a hefty shove to what had already been a long period of steady property price growth, fed by successive waves of buyers since the early 1980s.

Property prices began their present ascent in the early 1980s, says Mr Feroze Abdulla, executive director of Feroze's Estate Agency, and have since been propelled by successive and merging waves of newcomers. "It's a combination of the weather here, the con ial almosphere, Bangalore already being a cosmopolitan city, the good labour relations and relative to places like Bombay and Delhi, the fact that land was cheap and rents reasonable," be says.

For these reasons, 15 years ago Bangalore became, he saya, the "pensioners paradise", attracting well-heeled retirees from north india. To this flow was added another as hundreds of Punjabis fled the sectarian violence which convulsed the state for most of the 1980s. By the middle of the



Construction work on a site in Bangalore city centre

decade, Bangalore's emergence as "silicon valley south" brought in the first big foreign companies looking for office and residential space.

This latter flow grew considerably after 1991, when the government of Mr P. V. Narasimha Rao, the prime minister. opened india's doors to foreign investment, indian investors from Bombay, Delhi and Calcutta then started piling into the Bangalore market as prices rose precipilously in their own

year there's been an increase

cities. And in the last year to 18 months, say estate agents, a fresh wave of indians has crashed into the market from East Asia, either non-resident Indian investors from Singapore setting up businesses or Hong Kong indians looking to establish a bolt hole. Lately, tberefora, says Mr Abdulla, "there's been a tremendous boom - in some places last

Today Bangalore property

Rs800,000 to Rs900,000, today estate agents say bldding starts nearer Rs5m. But prices remain cheaper in general than New Delhi, and far better value than extortionate Bombay. "Sell your flat in Bombay," says one Bangalore architect, "and you can buy five good flats in Bangalore." As in both Delhi and Bombay, however, landlords are of 200 per cent in land prices."

rare who do not demand that a year to two-years' rent be paid in advance to secure a property. But, unlike both northern cities, good, central property remains available. Though the Bangalore market is tighter than ever, estate agents say it remains possible both to find spacious office accommodation within reach of the centre and, something unheard of in Bombay, to purchase land for fresh development within the city

Motorola, for instance, bas just moved into a purpose-built 11.150 sq m headquarters in Ulsoor Road, dead city centre. And while Bangalore suffers. like other big Indian citles, from multi-layered legal and bureaucracy-bound restrictions on land purchase, estate agents and architects say the illicit mechanisms for circumventing such laws, or axpediting affairs, are better oiled in Bangalore than other cities. "It's never a problem," says one, "if you have the right lawyers, the right cootacts and, of course,

the right dollars." For the present, estate est, the Bangalore market is steadying. Mr Abdulla belleves prices will continue to rise, but more modestly - hy perhaps 25 per cent - over the next six months to a year. But in the longer term, many also agree that Banga-lore's popularity is stretching its infrastructure to breaking

Power cuts are common across town and, given the likeliest outlook for new power generation in the state, will worsen over the next four or five years. Transport is a growing headache, with prospects for the city's vaunted new airport and rapid transit system still distant. Bangalore's city centre roads, meanwhlle, are clogging fast and the main arteries outwards, towards Madras, Mangalore and Mysore heavy and light industrial development - are crumbling, narrow, slow and choked with

■ Foreign Investors: Business is embarrassed by fundamentalist protests, says Alexander Nicoli A finger-lickin' uproar

'No thank you, we don't want any

technology,' says leader of the war against KFC Some foreign companies seeking to build a presence in

india run bead-on into problems they could not expect. One such is Kentucky Fried Chicken, part of the PepsiCo KFC, which plans to invest \$40m in 30 restaurants over seven years, opened the first in Bangalore in June after obtaining all necessary clearances from the central, atate and city

eeking to close the restaurant down, alleging excessive levels of monosodium glntamata (MSG) in the food. People who want to eat in the small KFC restaurant, located in a busy shopping area, have to go past police and

security guards posted to pro-

authorities. Already, however, it is in court, fighting to stay

open. The city corporation is

tect it from attack. KFC'a problems have embarrassed business leaders in Bangalore who want to attract more foreign investment to the area and fear that the atate's image will be damaged by groups who, in their view, are marginal and do not command significant popular support.

The campaign against KFC is being led by Professor M. D. Nanjundaswamy a farmers' leader whose views run counter to conventional approaches to economics. He is no stranger to battles against foreign companies, having fought against the entry into Karnataka of Cargill, the US agricultural concern. Cargill's Bangalore office was attacked and burned in 1993, though the group's operations are now

Prof Nanjundaswamy's oppo-

sition to these companies stems from his belief in an isolationist economic policy of self-sufficiency in which there would be no mass production and farmera would be paid what he considers the trua return for the produce of their small lots. "No thank you, we don't want any technology," he says. He considers himself a true follower of Mahatma Gandhi, India'a ascetic pre-in-

dependence leader. According to him, Mr Jawaharlal Nehru, who bacame India's first prime minister in 1947, perverted Gandhi's Ideals. "Ha continued the British model with a socialist label." in the professor's view, It has been all downhill since then: "I wouldn't say that we have achieved any development at

He says: "KFC is not just a simple restaurant. It's a multinational giant coming into the food sector, trying to influence standards." His main charges are that KFC is serving \*chemlcally poisoned chicken"; that KFC and other fast food chains, auch as McDonald's and Pizza Hut, will divert foodgrains needed for Indians into feed for chicken and cattle. There are also accusations of excessive levels of MSG, and that KFC is perverting Indian cuisine by serving carcinogenic

fried "junk food". KFC rejects these charges. "All these allegations are without any basis. They have no data, no facts," says Mr Sandeep Kohli, managing director of Pepsico Restaurants international in New Delhi. Chickens come from a local supplier which injects no bormones and has bad no cases of salmonella

or other harmful pathogens MSG amounts levels are well below the permitted 1 per cent level. Poultry feed, according to KFC, is mainly from agricultural by-products not consumed by humans. KFC argues that if its food is

"junk", then "most of the food Indians consume will be classified as junk". It points out that most Indian snacks, such as samosas and dosas, are fried If these fried foods were cancer-causing evarybody would ba suffering from cancer." Chicken, it says, has low fat and low cholesterol.

Logic may not count for much in what has become a political issue which arouses nationalistic emotions in many Indians, even in cosmopolitan Bangalore. However, the state government remains committed to aupporting KFC.

Prof Nanjundaswamy, who claims the support of 10m Karnataka farmers - a figure many consider to be inflated says he is waiting for the governmental processes to work on KFC. "If our representatives fail us, then we will resort to democratic methods throwing them out physically - non-violently of course."

rampant wage inflation in-

experienced technical staff.

rose by 28 per cent last year,

acknowledge that they are

well below Western rates.

Line operators, who comprise

about two-thirds of the staff,

are paid \$100 a month and

engineers \$300 a month.

The group has had considerable success with

Motorola india Electronics, its

fast-growing Bangalore-based

research centre which writes.

software for all Motorola's

developing software for the

\$3.4bn Iridium project, which

is due to become operational

network of 66 low-earth orbit

Meanwhile, Motorola's Land

in 1998, and will provide

global wireless hand-held

telephone services via a

Mobile division began

assembly of two-way

hand-held radios a few

months ago and a semi-

conductor sales office has

These new investments

been established in Bangalore.

satellites.

businesses. It is also

although managers

Bangalore, particularly among

Motorola's own wage costs

PROFILE

Motoroia

# 'You have to follow the rules'

Dinesh Raghavan says he has been "pleasantly surprised" by his experience setting up and running Motorola's new pager manufacturing plant in the "Electronic City", a ndustrial site 18 km outside Bangalore.

"I came bere with a lot of negative perceptions," admits Mr Raghavan, a Motorola veteran who joined the US electronics, communications and equipment group 18 years ago in Malaysia, but has spent most of his career in the facilities in Florida.

"I thought india would be a difficult place to work in because of the bureaucracy and the perceived level of corruption." But he says he has not encountered any corruption. "There are systems, and you have to follow the rules," he says.

Even India's bureaucracy eemed to move quickly for Motorola, probably helped by sub-continent since 1987, when a representative office was established in Delhi, and the setting up of a datacommunications products' manufacturing facility in 1990, which is also in Bangalore. "The Delhi office knew the procedures."

says Mr Raghavan. The decision to establish the plant was taken in August 1993 and after a two-month search for a site the plant opened in April the following year "There was a shell here

but we installed everything

else," he says. in this case, "everything" included the 2,78 sq m plant's own generator and voltage regulators to ensure the facility could continue to operate despite tha daily power cuts and voltage reductions which plague

businesses in Bangalore. Despite the chronic infrastructure problems, Motorola chose Bangalore "because it is viewed as the Silicon Valley of India," says Mr Raghavan, Many multinationals, including Hewlett-Packard, 3M and Fanuc, have also established operations there. However, the biggest lure for foreign electronics

quality labour and the opening up of the domestic market. Underscoring the plant's success in achieving high quality standards, it obtained

companies is low cost, high

five months of beginning operations. Motorola's strategy in setting up the facility was to supply the local Indian pager market once it takes off. The first pager services in India began in metropolitan cities. including Bombay, earlier this year. By the end of 1995, services should be available in

27 cities around the nation. Some industry analysts believe the market could be as big or bigger than China, and Motorola is not alone in

sporting the opportunity. Philips, of the Netherlands, has already set up a manufacturing facility; Casio, of Japan, bas plans to set up a plant in Goa; and Korean manufacturers are believed to

be eyeing the market.

Ahead of the expected boom in domestic demand, Motorola shifted manufacture of its "Adviser" pager out of Singapore to the new plant in June last year, enabling the group to take advantage of india's relatively low wages and run the Bangalore facility at full capacity. It is currently producing pagers worth around \$100m annually, mostly for export to the Asia

Pacific region. Currently, 249 employees work two shifts at the plant. 'We would love to open a third shift but women cannot work after 10pm or before 6am", says Mr Ragavan, and Indian law says that shifts must be rotated, ruling out an

There have been no industrial relations problems at the Motorola plant, and Mr Raghavan says tha workforce is highly committed and motivated.

He believes Western companies have an advantage in India, where the prevailing work culture is usually hierarchical and status orientated, "We provided a refreshing change," he says. Nevertheless, he also believes Western employers

are largely responsible for the

underline Motorola's determination to play a key role in the rapidly-developing domestic Indian information. technology market - aided by tha new pager plant the group is already ranked as india's largest telecommunications equipment exporter.

**Paul Taylor** 

TRUST A NEWBORN TO TEACH THE WORLD A THING OR TWO ABOUT STEEL.



Right from the very beginning, Jindal Vijayanagar Steel Ltd. had everything going for it. Being located in the midst of the high grade iron ore Bellary-Hospet region (with exclusive

access to mines in the area). And the blessing of the Karnaraka Government. But what actually sets it apart from the pack, was opting for the Corex technology (from Voest Alpine, Austria]. The latest revolutionary iron-making process in the world today. Which yields

steel of the finest quality and composition. Not that this satisfied JVSL Along with the heatic construction activities a green carpet is being laid around the project. One that's made up of a million green saplings, which'll transform the barren landscape into a veritable green belt (coming at a

time when rapid industrialisation is taking its toll on the So if JVSL is exhibiting all the signs of a steel prodigy. it's only to the world's advantage.



#### Top of the wish-list

From page 1 not anyway secure financing based on the "best efforts" delivery promises of the notoriously unreliable state-owned coal and rail operations.

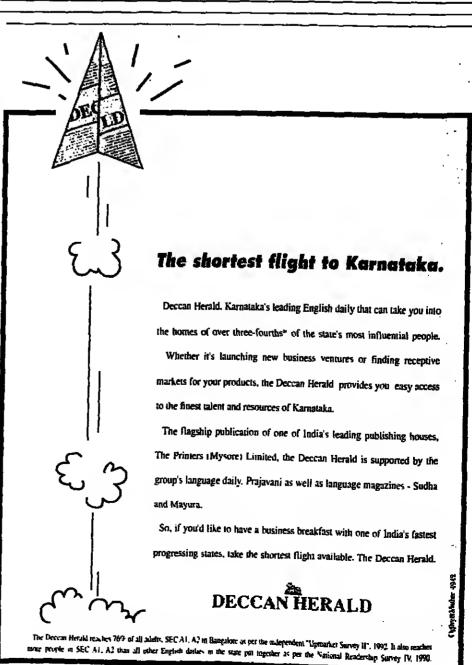
On environmental issues, Mr Somers says: "It's exactly as if we were doing the deal in California". He concedes that the proposed imported coal has a higher sulphur content, but says that since less needs to be burned and since imported coal leaves a third less ash, the environmental impact will be

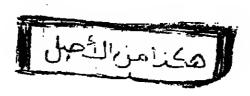
Even if the project sails through, however, it will still provide only 1000 MW. At least five more Cogentrix-sized projects are necessary to meet likely demand in 2000.

Mr Patel says two other US power groups are interested in installing new thermal units. with total proposed capacity of 800 MW. Otherwise, prospects appear limited. Industrialists. accordingly, are increasingly providing their units with cap tive power. Connected indus trial demand in the state is around 1,200 MW, and more than 900 MW is now generated by captive units.

In the longer term, attracting investors will depend upon being able to offer them viable returns, which in turn will require restoring the state's loss-making electricity hoard to solvency, in Karnataka, as in most other states, the solution will lie in charging the state's farmers, who presently receive their power free.

Until tariff rationalisations are mada, the base for inves-tors is sbaky. Of the state's power, 43 per cent is aupplied, free, to farmers, while 23 per cent is lost or stolen in transmission. Two thirds of the state's power is, therefore, not





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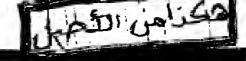
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Software: The state is home to some 114 companies, reports Paul Taylor

# Bangalore India's 'silicon plateau'

Growing domestic and international competition casts a cloud over industry

Bangalore's computer software industry has experienced explosive growth over the past five years, earning Karnataka's state capital the title "india'e Silicon Plateau".

Now, however, there are concerns over whether that growth can be sustained in the face of growing domestic and international competition, inadequate infrastructure and escalating costs.

According to G. S. Varadan, director of the governmentbacked Software Technology Park scheme in Bangalore set up to encourage the development of export-orientated software industry, there are 114 of these companies in the area.

Among the indigenous high technology companies which have established themselves in Bangalore are Wipro Systems, one of the largest Indian hardware and software vendors; Infosys Technologies; and Sonata Software.

These in turn have been followed by a galaxy of multinational IT companies which bave adopted varying strategies to tap into the local labour market of software engineers and gain competitive advantage through what has become known as "offshore outsourc-

Some like Digital Equipment, International Business Machines and British Aerospace have formed joint ventures with existing Indian players. Among them Tata Information Systems, IBM's bardware and software joint venture with Tata Industries, has grown rapidly to become one of the largest IT companies

BAe-HAL, a joint venture between the UK-based group and Hindustan Aeronautics and Unit Trust of India, formed two years ago, is focusing on real time systems such as air traffic management, and main-tains Sunlife Assurance's annuity system remotely using a dedicated high-speed satellite datacoms link.

Others, including Texas shore pioneers, have set up wholly owned subsidiaries focused on export markets -TI's Bangalore operations are involved in advanced semiconductor chip design.

Meanwhile, US groupe including Hewlett-Packard and Motorola bave established manufacturing operations in Electronic City - a government and state-sponsored technology park complete with satellite earth station facilities 18km outside Bangalore, designed to serve the fast growing domes-

More recent additions to the Bangalore technology roll call include VeriFone, the US transaction automation group; Siemens Communications Software, a wholly owned subsidiary of the German conglomerate: Oracle Software and Novell Software, which have both set up software development centres; and Compaq Computer, which is aggressively attacking the domestic PC market.

Many of these companies are growing by more than 50 per cent a year and employing rapidly increasing numbers of graduates. For example Siemen's Communications, set up 18 months ago to build software for the group's digital switching systems, already employe 250 peopla. Hans Krafka, managing director, plans to grow his workforce of software engineers to 1,000 by the end of the decade.

According to Kunal Kashyap, a consultant with Arthur Andersen in Bangalore, 85 per cent of new software companies that come to India chose Bangalore as their headquarters, mainly hecause of the availability of "a large pool of low cost professionals"

Andersen has advised a number of multinationals on siting their new Indian operations. Based on a range of factors including transport, power, telecommunications, labour availability and "liveability", it rates Bangalore as the first preference for locating a new software development. Bombay, which actually hoasts more indigenous software companies than Bangalore, is ruled out because of its extremely high property prices, while Andersen says Delhi and Madras could be considered as "alternative, backup loca-

The Karnataka capital owes its success in attracting new IT investments to a combination

of political, industrial and geographical factors.

Back in the 1950s, the Indian government decided to establish several strategically important public sector industries in Bangalore - well away from India's northern borders. Those public sector companies included Hindustan Aeronautics. Bharat Earth Movers. Bharat Electronics, Hindustan Machine Tools and Indian Telephones Industries - names which still play an important role in the state and the country as a whole, employing

thousands of people. When first the indigenous Indian computer software and aervices industry began to develop in the early 1980s, Bangalore'e public sector employars, among the few Indian organisations with extensive software and hardware installations, provided a ready source of expertise.

By the mid 1980s, IT companies in the US were already experiencing a shortage of software engineers - a shortage which led to large numbers of Indian engineers going to work for American technology companies, and to the emergence of an Indian software industry based on the supply of trained software engineers to US firms on short-term contracts.

The "body shopping" husiness was based largely on the relatively abundant supply of cheap Indian engineers who could ha hired then for a fraction of the salaries of their Californian colleagues. However as US and other western companies built up confidence in the quality of Indian software, developers switched from onsite development to offshore services supplied from India.

At the same time, the liberalisation of foreign ownership rules, the drive for export earnings and the opening up of the domestic economy which was began in 1991 has encouraged a growing number of foreign IT

Exports

750.00

405.00

300.00 283.00

282.50 274.90

247.30 243.70 199.80

194.30 155.30

144.60

138,60

137,30

**Top 20 Indian Software Exporters** 

Company

Tata Consultancy Services

HCL Hawlwitt Packard Ltd

Wipro Systems Ltd Silverline Industries Ltd Pentatour Software & Exports Ltd

Infosys Technologies Ltd

Information Management Resources Siemens Information Systems Ltd

Square-D Software Ltd Wipro Infortech Ltd

Texas instruments Ltd

PSI Date Systems Ltd

Information Technology Industries Ltd Tata Information Systems Ltd Mahindra British Telecom Ltd

Patni Computer Service

Equipment (India) L ICIM Ltd

I.T. Industry in India Total market \$994m \$1,087m \$1,165m \$1,107m \$1,508m

companies to establish their own operations in India. Initially many of them used their Indian start-ups for tedious programming jobs. But now many of them are relying on thair Indian operations to design, build and test complex software applications for the global market.

Bangalore has had a number of key advantages when it comes to attracting the new foreign investment. First and foremost is a supply of well-educated engineers. Bangalore is bome to a large number of national research laboratories and prestigious higher education establishments, including one of India's six Indian Institutes of Technology. The state of Karnataka as a

whole has 18,000 college places for engineering. Despite rampant wage inflation - particnlarly for experienced software engineers - a first-class gradnate can still be recruited for about Rs12,000 a month (about £2,800 a year), although a new recruit can expect his salary to triple over three or four years. But most start-ups say that relatively low labour costs are only one reason for setting up operations in Bangalore. "We did not come here to save money, we did not come here

to service the Indian market." says Ranjan Chak, executive director of Oracle Software. resources and getting established here was a way to minimise the risks." Other factors include the state's relatively good record of lahour relations, the Karnataka government's positive

tors, and Bangalore's pleasant With an altitude of just over 900 m and relatively light rainfall, Bangalore has been described by its inhabitants as having "an air-conditioned climate". Until recently the city

attitude towards foreign inves-

was also ralatively uncrowded and land prices and housing were cheap compared with Bombay or Delhi.

But Bangalore's success in attracting new business ventures and its rapid population growth is taking its toll on the city'a infrastructure, which is on point of collapse. Bangalore has no effective public transport system - and no taxis - so the pot-boled, congested and polluted streets are bursting at

Most crucially, power cuts and voltage reductions are a daily occurrence. Although software companies are not big power users, they must install voltage regulators, uninterruptable power supplies and generators to run their computers. "Power is a major concern," admits Andersen's Kashyap. Similarly although historically Karnataka has had enough water there is now a looming shortage - mains water is only available two days a week and bore-boles are

The local telephone network has improved dramatically, but according to John Whiting, managing director of TISL, the BM-Tata joint venture, one in three calls still fail to get through to TISL's switchboard. Meanwhile he warns that official restrictions over the deployment of higher capacity growth. Whiting, who is also chairman of the American Business Council in Bangalore, warns hluntly: "The husiness community feels there is not a plan to handle the high growth

Overall costs are growing at about 25 per cent a year, says V. Chandrasekaran, president of Wipro Systems. The price of office space on in the central business area has risen from Rs1,800 a square foot two years ago to hetween Rs6,000 and Rs8,000 today, although plans for a new Singapore-financed Technology Park on the outskirts of Bangalore could eventually ease pressure,

Meanwhile, staff turnover is high and employers in the industry report that wages are rising by an average of 20 to 25 per cent a year. "From a multinational's point of view it's not a critical issue yet," says Krafka of Siemens Communications. "As long as salaries are at an appropriate level, then the software industry will flourish. However he, like other mangers, warns that if salaries continue to spiral, be would be under pressure to move the operations back to Europe. "That is a danger for India," be says.

"If things go well Bangalore could become the software capital of the world," says Mr Varadan in his office in the Electronic City. But most industry leaders warn that unless the city's infrastructure

By Yagati Krishnamurthy

# State pays for lack of policy

how central and state politics can become entangled

Two rivers - the Canvery in the south and the Krishna in the north - are the lifelines of Karnataka. But not much good has flowed down them. Long stretches of countryside alongside them are parched as a result of interminable disputes between the states through which they flow.

Though plenty of water flows into the two river basins, little of it ends up on the land it is supposed to irrigate. The problems are an example of how central and state politics can hecome entangled, preventing effective action to solve India's fundamental problems.

The disputes have been allowed to fester because of the absence of a national water policy to resolve interstate disputes, and a lack of political will among the rulers of the states.

The longest-running argument has been over the Cauvery, with the neighbouring state of Tamil Nadu. Its origins lie in a water-sharing agreement decreed by the British in 1924, which was complicated by the 1956 reorganisation of states following independence from British rule in 1947.

Karnataka, formed from the state of Mysore and parts of Bombay and Hyderabad states and the Madras presidency, was barred by New Delhi from using outlays under the central pan to harness Canvery water to irrigate land.

In the 1970s the state government defied the Planning Commission and used state funds to implement some irrigation projects. But its efforts were matched by Tamil Nada, where the government in Madras made alliances with the Congress Party government ruling in New Delhi in order to frustrate Karnataka. The dispute became increas-

ingly politicised. In the late 1980s, the two states were on the point of reaching an amicable accord when the tben prime minister, Mr V. P. Singh, as a favour to a political ally in Tamil Nadu, appointed a tribunal to adjudicate the states' claims to improved urgently, new IT very water. At the time, Kar-investments may go elsewhere. nataka had a Congress Party share of water by 2000.

The problems show government which was opposed to the Janata Dal government in New Delhi.

Tha present Tamil Nadn chief minister, the formidable Ms Jayalalitha, refused to talk to ber Karnataka counterpart in the early 1990s. At one point, she began a "fast until death" in order to persuade the central government to implement an order of the tribunal. Each year, passions are whipped up, lives are lost and property destroyed. The Supreme Court in New Delhi is presently hearing petitions from both the states.

The dispute over the north ern river Krishna also stems from the formation of Karnataka, since much of the river basin was formerly in Hyderahad state which became the present Andhra Pradesh. The government in Bangalore, which is in the south, showed little urgency in accessing the

water from the Krishna. The dispute with Andhra

#### Irrigation In 1990

Area	Water use				
(m acres)	(bn eu ft)				
l'amil Nadu: 2.58	501.5				
Kamataka: 2.14	322.8				

Pradesh went before a tribunal in 1969. But by the time tribunal had completed its job, Andhra Pradesh had almost completed the Nagarjuna Sagar Dam, staking claim to more water. The tribunal awarded the largest share of water to Andhra Pradesh, and stipulated that the degree of exploitation of the allocated water would be used as criteria for distribution of surplus water to the states in 2000.

However, Karnataka has only exploited about one third of its allocation, in spite of getting World Bank finance to largely unirrigated, and the state's performance in rehabil-Itating and compensating those who lost land through water projects has been disappointing.

Karnataka now faces a grim prospect of losing water resources to Andhra Pradesh which has made greater efforts to build infrastructure. The present state government of Mr H.D. Deve Gowda is belatedly seeking to address the problem, allotting budget funds and issuing bonds to finance a plan to use all its

# ■ Infosys: Something of a darling among foreign investors, writes Mark Nicholson Aiming for the \$100m mark

GE, Reebok, Holiday Inn and at least one leading US bank

are clients It's a long, grinding haul out to Electronics City, the state-run high-tech park which houses the headquarters of Infosye. one of India's most ambitious and best regarded software companies: 20km of delapidated road clogged with mostly delapidated trucks and cars. Small wonder Infosys has huilt a dormitory for the candleburners among its 1,000 on-site

But there is nothing grinding or delapidated about Infosys' bright and airy new 13,470 sq m centre, which it claims to be India's higgest single software facility, nor about this relatively small company's progress towards its considerable ambitions.

"It's our desire to be a \$100m company by March 31 2000," says Mr N. R. Narayana Murthy, chairman and managing director. I want to have 1,000 rupee millionaires among our staff here. In US terms, we probably have about 50 dollar millionaires here today."

Including, presumably, Mr Murthy, one of seven software engineers who founded the company in 1981 with, be claims, \$300. Six of those seven remain, all board members and full time Infosys employees, in a company which last year turned in a 32 per ceot rise in net profits to \$3.5m on gross revenues of \$18m through sales of software services and its own products, 85 per cent of which to clients overseas. Of more than 30 main clients, says Mr Murthy, 20 are For-

GE. Reebok, Holiday Inn and at least one leading US bank. Such a client rosta and Infosys' steady growth have already established it as some-

thing of a darling among foreign international investors, which hold 23 per cent of Infosys' stock - half of which is in the hands of its employees under one of India's first employee share ownership

"Everyone loves them," says the India head of one UK merchant hank. "They could well be on the verge of becoming a real global player."

And such is patently Infosys' intention. Mr Murthy reels off a list of Indian firsts he claims for the company, each of which signals its global designs: it is India's first company to own its own videoconferencing equipment; the first to establish its own data communications network; the first software group to win an ISO 9001 quality standards certificate: and the first and only group to submit its annual accounts both to Indian and US generally accepted accounting standards. "We did that not because we have any intention in listing in the US," says Mr Murthy, "but being a company that receives financial analysts every week, a lot based outside India, we must make their task easier in understanding our

financials." At present the company earns 87 per cent of its revenues through software services, supported by a network of overseas centres, mostly in the US in Boston, San Francisco, Cincinnati and New York. A full US subsidiary began operations last month. But the aim, says Mr Murthy, is to have Infosys product sales

rise to 40 per cent of turnover by 2000.

Infosys at present offers three main products: Eagle, a ware system; DMAP, a system for distribution management; and Bancs 2000, a software package for complete bank branch automation - a product already installed with several Indian banks and financial institutions and which is fast finding takers in Africa. Further products, says Mr Murthy,

are in the works.
Indeed, sustaining a competitive edge in an industry where s lead in technological or software development can last only a matter of months is clearly Infosys' priority, and one Mr Murthy puts in terms of finding, training and retaining the best of India's young software engineers. Infosys claims to lose about 10 per cent of staff to rivals, or bigger companies overseas, each year - a figure about half the average for other Bangalore-based software houses.

The company hired 200 new recruits last year, culling from the Indian Institute of Management and other high-grade Indian colleges. Computer and software knowhow is less the criterion of selection, company managers say, than the "learnability" of candidates. "The only constant in this business is change," says Mr Murthy. "so we look for people who can learn quickly, and that tends to mean younger people." He says for every five recruits, the

company will interview 100. To keep them, be says. infosys seeks to "empower" new recruits early, giving them responsibility for new projects and applying a meritocracy backed up by the stock ownership programme and the sight of the company's six now rather wealthy founders at work on the shop floor. "Noone can be on the board who is not a full-time employee - as a matter of principle," says Mr Murthy. "People have encouraged us to have non-executive members, but if we want a different view, we hire consul-

The approach is one consistent with the company's foundation which, Mr Murthy explains, began with the prin-ciple that the company should be one "of the professionals, hy the professionals, for the professionals". When be and his six colleagues started out, he says, they sought to find a business which could grow in its own terms outside the constraints of early 1980s India, those of licencing and government controls, where industry was led by big business houses with political connections. "We saw software as an area where professionals could leverage a business on their own," he

Running through a list of India's biggest bosiness bouses, he says few have so far managed successfully to cultivate their own software businesses. "The old, feudalistic way of running companies doesn't work," he says. "You need to keep the brightest and best by empowering them, giving them responsibility. It needs a different kind of leadership."

The approach seems to have worked so far. Infosys' investors certainly have faith. Stock which sold at Rs95 two years ago is now trading above Rs460 a share and is, according to one UK analyst, an equity on which Infosys' institutional shareholders are sitting tight.

#### Ever wonder why foreign investment pouring into India, often finds a home in Karnataka? Ask KSIIDC.

The wheels of economic reforms are propelling India ahead to meet the developed economies of the world. And Karnataka - India's eighth largest State - is steadily emerging

as the country's economic magnet.

In just the last four years, Industrial Licences, EOU Registrations and Industrial Entrepreneurs' Memorandum have shot up - from 201 with investments of Rs. 10.5 billion to 1043, with investments of Rs. 201 billion. In fact, since December 1st, 1994, 8 mega projects involving an investment of Rs. 1768.86 crores and medium projects worth Rs. 360.71 crores were cleared. The investment momentum has truly gathered pace. The dynamic Industrial Policy, a comprehensive package of concessions and subsidies and KSIIDC's catalytic role have all helped make Karnataka the focus of attention - both nationally and internationally.

KSIIDC's package for industrialists, in fact, is tailor made to suit all their needs - infrastructure assistance, term loans, equity participation, equipment leasing, deferred payment guarantee and a range of merchant banking and financial services. Let KSIIDC help, you. Come to Karnataka.

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- Breweries and Distilleries Vintage Foods & industries Ltd.
- Cheese and Milk Products Karnataka Petrosynthese Ltd.
- Polymer Alloys & Blends
- Ramanashree Group of Companies Hotels, Resorts, Developers & Builders
- Karnataka Oswal Oilpaims Ltd. PalmOil
- Murudeshwar Ceramics Ltd. Ceramic Diamond Floor & Wall Tiles
- Nucor Weld Pvt. Ltd.
- Welding Consumables & Flex Cored Wires
- Biocap Pharma Ltd. Pharmaceutical grade empty hard gelatine capsules Indiana Dairy Specialities Ltd.
- Dairy products & Edible grade Casein
- Tuisyan Synthetics (P) Ltd. HDPE/PP Woven sacks, Jumbo Bags, LDPE Liners
- Mineral Sales Pvt. Ltd. Mining of Iron Ore
- Bellary Steel and Alloys Ltd.

Sponge Iron, MS Billets & Steel Structurals

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#### INTERNATIONAL CAPITAL MARKETS

# Lukewarm response to D-Mark deals

The D-Mark sector sprang back to life with four medium-dated bonds, but the deals, three of which were triple-A rated fiveyear bonds, got a lukewarm

While most dealers did not quibble with the terms of the issues, they said the five-year area - one of the few sectors in the eurobond market offering

#### INTERNATIONAL BONDS

attractive swap opportunities was still suffering congestion after a glut of issuance earlier

"The market can't take any more triple-A rated five-year paper," said a Frankfurt

Landwirtschaftliche Rentenbank issued DM300m of 5.75 per cent five-year paper via Nikko Bank, a large chunk of which was aimed at Japanese

Priced at 33 basis points over the corresponding Bobl, the spread widened to around 35 basis points after the bonds were freed to trade.

BNG, the Dutch municipal inancing institute, also tapped the five-year sactor with DM250m of 5.625 par cent bonds via BZW. The spread of 28 basis points over Bobls was deemed aggressive and the gar widened to around 32 basis

Ford Credit issued DM250m

of five-year bonds via Deutsche Bank. Its deal got a slightly more enthusiaatic response from continental European retail investors for its higher spread of 62 basis points over Bobls, reflecting the borrower's lower credit rating of A1/A+. In the dollar sector, TMCC's

\$750m issue of five-year bonds was a resounding success. being several times oversubscribed. Its yield spread over Treasuries, 22 basis points at launch, narrowed to 20 points by the close.

"It was a fairly priced deal, they had a great story to tell everything about it was right. said one dealer. One of the lead managers said about 50 per cent of the bonds had gone into Asia and the rest into European accounts.

Meanwhile, a £100m 10-year issue for London Electricity, the top-rated UK electricity

	IEW II	HTER	OITA	NAL B	OND	ISSUES	
Borrower US DOLLARS	Amount m.	Coupon %	Price	Meturity	Fees %	Spread bp	Sock runner
Toyota Motor Credit Corp. Advance Benk Australie: Province of Buenos Aires	750 300 100	6,125 約 11,504	99,483R 99,78R 100,00R	Oct.2000 Oct.2000 Oct.1998	0.25R 0.175R 1.125R		Mertil/Nomure/SBC Warburt CSFB/ Mertil Lynch Inti. Selomon Brothers Inti.
	100	11,000	TOULDOR	Coc.1886	1.1205	+300007878-20	Sacritor Exocies and
D-MARKS Kores Development Benk Landwirtschaftliche Rentenbank 3NG Ford Credit Europe	500 300 250 250	5.625 5.75 5.625 8.00	99.968R 109.00R 99.74F 102.127	Oct.1999 Oct.2000 Nov.2000 Nov.2000	0.225R 0.25R 0.25R 2.50	+33(57, %-00)	Deutsche Bank Nikko Bank (Deutschland) Bude Zoete Wedd(Deutsch.) Deutsche Bank
YEN Bayanache Lundesbenk* National Australia Bankic)* Memil Lynch & Co.*	10bn 10bn 10bn	(b) 4,50 (d)	100.40 99.70 100.20	Oct.2015 Oct.1996 Oct.1996	0.40 0.375 0.20		Nisko Europe Merrili Lynch International Mertili Lynch International
SWISS FRANCS Republic of Argentine	150	7.125	101.00	Nov.1998	1.50	-	Credit Suisse
STERLING KfW International Finence(s) London (Sectricity(e)	200 100	7.625 8.625	99.581R 99.246R	Dec.2000 Oct.2005	0.25R 0.35R		JP Morgan Securities HSBC Markets
Unceasiourg Francs Englow of Sweden ppe Finshce(1)	3bn 2bn	2870 8.75	64.85 102.50	Dec.2002 Dec.2002	1.375	:	Credit Européen Credit Européen
AUSTRALIAN DOLLARS Kommuninvest+	100	29/0	67,70	Oct.2000	0.25		Nide Europe
CANADIAN DOLLARS (redietbenk Intl. Finance())	100	7.50	98.625R	Dec.2001	0.308	+5(f)	ABN Amro Houre Govetz

Final terms, non-calable unless stated. Tried spread lover relevant government bond; at author supplied by lead manager, wurmssed. \$
Floating-rate note, #Semi-annual coupon. R: fixed re-offer price; tees shown at re-offer level. a) 3-mth Libor +15bp. b) 5.70% in AS or
5.10% in DM, Issuera option. C Principal reped in USS. d) 1% to 19/10/96, 1.3% to 19/10/97 and 1.7% thereafter. a) Standard usby investor put option. 6) Over Interpolated yield. 9 Long 1st coupon. s) Short 1st coupon. company, got a warm welcome,

with a third of the bonds placed in continental Europe, according to HSBC Markets.

recovery of the sector helped

bonds for Germany's KfW, priced at 16 basis points over gilts, were slower off the mark but saw demand from continental European investors, Another £200m of five-year said lead manager J.P. Morgan.

#### under pressure amid takeover activity and fears of rating downgrades, but the recent

#### electricity companies had been US Treasuries little changed in quiet trading

By Lisa Bransten in New York and Antonia Sharpe in London

US Treasury prices held steady in quiet trading yesterday as new data was mostly in line with economists' expectations and the dollar posted modest losses on profit-taking.

Near midday, the benchmark 30-year Treasury was 🔓 lower at 105% to yield 6.456 per cent. and the two-year note was up 18 at 100, yielding 5.733 per cent. Volumes were thin because of the Yom Kippur

Manufacturers orders rose 2.6 per cent in August, more than reversing July's 1.0 per cent decrease, but the figure

WORLD BOND PRICES

**BENCHMARK GOVERNMENT BONDS** 

failed to rattle the bond market as it matched median expectations. The index of leading economic indicators was also in line with economists forecasts. gaining 0.2 per cent in August.

#### GOVERNMENT BONDS

Most traders were more concerned with the data on September employment due on Friday than with figures on economic activity in August.

The dollar slipped against the yen and the D-Mark as currency traders took profits in advance of this weekend's meetings of the G7. In early

at Y100.69 and DM1.4323 compared with Y101.35 and DM1.4375 late on Tuesday.

European government bond

markets moved higher in the late afternoon but earlier in the day had shown little movement as traders awaited developments from the meeting of the International Monetary Fund in Washington.

Stories that the meeting would result in concerted intervention to support the dollar were discouraging partici-pants from taking positions. A further reduction in the repo rate by the Bundesbank failed to excite the German

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

CALLS

market which reopened after Tuesday's holiday. The central bank cut the lowest accepted rate to 4.05 per cent from 4.08 per cent, prompting a further steepening in the yield curve.

Ms Phyllis Reed at BZW said three-month rates in Germany were set to go below 4 per cent. which would cause the yield curve to steepen further. She said that since the curve was so linked to interest rate movements, it was difficult to see it

flattening in the near term. Mr Graham McDevitt, bond strategist at Parihas Capital Markets, said the market was focusing on the forthcoming auction of new bunds which could be as large as DM15bn.

Strong words from Mr Alain Juppé, the French prime minister, about the dangerous situation of the country's finances caused a softening in the French market, where the spread over bunds widened by about 4 basis points to 94

Analysts said the market was pricing in any trouble which could be sparked by the forthcoming strike on October 10. On the Matif, the 10-year notional government bond eased 0.12 point to 115.40.

■ UK government bonds had an uninspiring day, with the December long gilt future rising % to 1061.

Price Indices

1 Up to 5 years (23)

2 5-15 years (21) 3 Over 15 years (8) 4 kradesmables (6)

Up to 5 years (1)

5 All stocks (58)

FT-ACTUARIES FIXED INTEREST INDICES

+0.12

Wed Oct 4

145.16 160,83 183,75 141.09

#### Russia near agreement on London Club debt

By Graham Bowley

Russia and its commercial bank creditors have moved rescheduling of the country's defaulted commercial loans, its so-called London Club debt. Representatives from both eides, which met in London this week, are to recommend that Russia's \$25bn-\$30bn of commerciai bank loans be restructured into loans with a 25-year maturity, according to banking sources close to the

negotiations. Past dna interest on the loans is to be repackaged into 20-year bonds, they said. There would also be a seven-year grace period, during which no

The recommendations are to before the end of the year.

seriousness of the Russians and the eagerness of the London Club to come to an agreement," said Mr David Boren, an emerging market analyst at Salomon Brothers in London. The progress will be welcomed by foreign investors. who see the settlement of Russia's ontstanding debt problems as an important measure

anthorities' commitment to attracting foreign investment. US dollar and D-Markdenominated debt trading in London rose slightly on the

"It's positive, but let's not get that excited." said one emerging markets analyst. This is an outline of the deal that might or might not be

1.90

8.38 5 yrs 9.78 15 yrs 8.84 20 yrs 8.83 irred.† 9.35

# FOA forms panel to advise users of derivatives

By Conner Middelmann

DERIVATIVE

The UK Futures and Options Association (FOA) yesterday launched a specialist panel to advise users of derivatives especially small and mediumsized enterprises - on how to improve their internal risk management controls.

accountants and consultants

who have particular expertise

in advising users of derivatives

on operational and legal risk.

Each of the panel members will offer their services to mar-

ket users for the purpose of

reviewing their documanta-

tion, practices and procedures.

The service is aimed at unre-

gulated corporate users of the

derivatives market, although

others - such as pension funds

or insurance companies - will be able to use it for an indepen-

dent appraisal of their control

the management of risk has

received a lot of attention from

regulators, the media and the

industry, and there has been a

proliferation of reports con-

cerning what should be good

practice," said Mr Michael Jen-

kins, chairman of the FOA,

when introducing the new ser-

vice, "But these reports are often fairly inaccessible to

small and medium-sized end-

users of derivatives," he added.

participants use derivatives to

great effect in managing finan-

cial risk, he said, others "still

have to learn the importance of

establishing and maintaining

proper policies, procedures and

controls governing their use".

6.78 8.75

Oct 4 Oct 3 Yr. ago

Oct 4 Oct 3 Yr, ago Oct 4 Oct 3 Yr, ago Oct 4

8.86 8.90

Oct 4 Oct 3 Yr. ago

While the majority of market

The role of derivatives in

systems.

INSTRUMENTS The Operational Risk Review Panel comprises members from 15 leading firms of lawyers,

principal repayment would be

be considered at a full meeting of Russian and bank negotia-tors "in a few weeks' time". according to a statement. Bankers said they expected a final decision to be made "This is a further sign of the

of its transition to a market economy and as a signal of the

For this reason, said Mr Jenkins, the association decided to offer a practical "help-line" for end users of derivatives to establish whether their policies and procedures are appropripollar

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An FOA committee has also drawn up a list of derivatives risk management guidelines which are due to be released before the end of the year, he

The cost of the service is likely to lie some 50 per cent below the fees usually charged by specialist consultants for detailed appraisals of companies' risk profiles.

Howaver, the work of the panel will usually provide only a "health-check", rather than an in-depth examination.

The panel will advise users of derivatives on various aspects of operational risk, such as strategies; policies and procedures; management supervision; valuation of derivatives holdings and their sensi tivity to underlying market movements; counterparty credit exposure; and trading and settlement procedures.

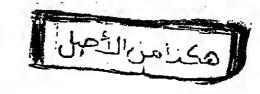
Legal risk assessment.will include examining whether a company is able to enter derivatives transactions and can provide collateral or guarantees to back its obligations: contractual relationships; proper authorisations; and the participants' regulatory status The risk review panel includes law firms Ashurst

Morris Crisp, Baker & McKenzie, Clifford Chance, Denton Hall, Freshfields, M.W. Cornish, Macfarlanes, Simmons & Simmons, and Stephenson Harwood; tax and accounting consultants Field Fisher Waterhouse, Moores Rowland, Price Waterhouse, and Touche Ross; and derivatives consultants Trevor Robinson Investment Management.

9.03 8.12

#### 0.76 0.62 Italy M NOTIONAL ITALIAN GOVT, BOND (BTP) FUTURES (LIFFE)" Lira 200m 100ms of 100% Strike Price 10200 10250 10300 MOTIONAL SPANISH BOND FUTURES (MEFF) Sett price Change 88.94 -0.06 High 89.15 Low Est vol. Open int. Dec Mar UK Treesury Bills and Bond Yields 5.56 5.53 5.49 5.59 5.61 Two year ... Three year ... Three year ... 10-year 30-year Low Est voi Open int. Dec 1-05 1-38 2-15 Jan 1-26 0-63 0-42 **BOND FUTURES AND OPTIONS** ■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000 Open Sett price Change 88.74 86.70 +0.16 114.72 114.90 1,070 LONG TERM FRENCH BOND OPTIONS (MATIF) Nov 0.20 0.49 0.95 114 115 116 117 Open 122-28 Close Change High Low 122.43 122.20 Est. vol. Open Int. 98913 183448 500 3530 | Number | N 6.04 109354 8.00 10034 7.90 954 8.96 964 8.04 99394 8.01 10215 8.01 10215 8.11 106324 8.14 9633 8.67 9.89 6.22 7.79 8.02 9.75 8.26 10 13 8.42 8.10 6.637 6.451 8.544 6.50 6.55 6.65 6.65 7.19 7.25 7.25 7.27 7.407 1024 11013 96174 11014 11014 11212 11512 794 09134 913 13pc '97-2 Hydro Coether 15pc 2011 Lindo 131-pc 2005. Liverpool 3-pc tred. LCG 3pc '20 Aft. Reschante 111-pc 2007. Med. Wr. 3pc '20 Aft. 4-pp 1. 2024. 444

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**CURRENCIES AND MONEY** 

# MARKETS REPORT Dollar gives up gains as investors take profits

By Philip Gawith

Foreign exchanges yesterday continued the largely trendless trading pattern seen in recent days as markets looked forward to the weekend G7 meeting in Washington to provide fresh trading direction.

The dollar succumbed to profit-taking, handing back the gains made on Tuesday. After touching intra-day highs around Y101.20 and DM1.4380, it slipped back to around Y100.8 and DM1.4328 in early afternoon New York.

The dollar's losses were attributed to comments from Mr Elsuke Sakakibara, head of the international division of Japan's Ministry of Finance, that central bank buying could not sustain the dollar for long. This undermined the hopes. harboured by some in the market, that a renewed commitment by the G7 to a stronger dollar will provide the excuse for the next leg in the dollar

Europe
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Belgium
Denmark
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Gracce
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POUND SPOT FORWARD AGAINST THE POUNT

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There was little action in \$1.5817, from \$1.5807. Europe to enthuse traders. Mr Alain Juppe, the French prime minister, repeated his warning that French public finances were in "peril", while Mr Lamberto Dini, his Italian counterpart, also re-iterated his expec-tation that the lira would remain stable.

The French franc closed slightly lower against the D-Mark, at FFr3.454, from FFr3.448, while the lira was firmer, at L1,121, from L1,126.

In Germany, the repo rate fell to 4.05 per cent from 4.08 per cent while the Belgian central bank trimmed its central rate to 4.05 per cent from 4.10 per cent.

Sterling had a quiet day, closing little changed at DM2.2717, from DM2.275, and at

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■ Optimism about the dollar has clearly receded from the high-water mark reached a few weeks back, although the balance of market opinion would still appear to be on the bullish

That said, the polarity of views among currency forecasters is now more resemblant of the position a year ago, than one month ago when there was barely a dissenting view to be heard.

This point emerges clearly from the latest currency fore-casts made by Citibank and UBS, who have returned to their long-held positions as. respectively, bellwethers of bearish and bullish opinion on the dollar. Citibank's twelve month forecast is for DM1.30 and Y85; UBS is forecasting

DM1.60 and Y112 Mr Neil MacKinnon, Citi-Mr Neil MacKinnon, Citi-bank's chief currency strate-gist, goes further, repeating a cent chance of the dollar fallpreviously stated view that

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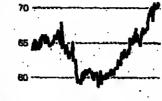
85.9

93.0

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142.5

Against the Yer (V per DM)



"there is a high probability of a dollar to ollapse over the next two to three years which will take the US dollar down to par-ity against the D-Mark."

On a shorter term perspec-

tive, some technical analysts are also bearish about the doling to DM1.3850 over the next

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

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month. "A lot of short and medium term indicators show ing pressure either.

The IMF, in its semi-annual medium term indicators show strength is just a dead-cat

comments as "potentially the first chink in the armour of G3 commitment to the dollar." If, as reports indicated, he was happy with the dollar at Y101.5, this meant the market rather than simply a move in could no longer rely on central bank support for the dollar. This raised the question, said Mr Hawkins, of "who is going to fund the US current account

deficit?" Dollar bulls hope that in this event, the vacuum will be filled by the outflow from Japan of private investment funds. Mr Chertkow, however, concedes that "we have not seen Japanese life companies come back into the market." On the other hand, he says there has not been much sell-

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that the current dollar World Economic Outlook. offered some cheer for the dolbounce," said Mr Dunne.
On the policy front, Mr Jeremy Hawkins, chief economist et the Bank of America in London, described Mr Sakakibara's ranted. Mr Chertkow said with the Bundesbank not thought to be happy with the D-Mark above Y70, what was needed was a generalised move into

> ■ The Bank of England p vided £467m liquidity tows clearing a £650m money m ket shortage. Three mor LIBOR was unchanged at

the dollar - so far absent -

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a unten	KONTH P	BOR FUT	URES (M	ATIF) Paris	Interbenk o	offered rate	(FFr5m)
	Open	Sett price	Change	High	Low	Est. vol	Open
Da.:	_	93.50	-0.08	93.69	93.56	35,449	43.3
Dec Mar	93.64 94.06	93.59	+0.07	94.10	93.98	9,548	28,8
Jun	94.27	94.27	44.07	94.33	94.21	3,729	20.5
E THREE M						inta of 1009	
	Open	Sett price	Change	High	Low	Est. vol	Open
Dec	Open 96.09	Sett price 96.03		High 95.04	Low 96.02	Est. vol 14437	Open 1472
Dec May	Open 96.09 96.10	Sett price 96.03 96.09	Change	High 95.04 65.10	96.02 96.03	Est. vol 14437 13172	Open 1472 1576
Dec May	Open 96.09 96.10 95.98	Sett price 96.03 96.09 95.99	Change +0.01	High 95.04 65.10 98.00	96.02 96.08 95.98	Est. vol 14437 13172 8914	Open 1472 1576 1224
Dec Mar Jun Sep	Open 96.09 96.10 95.98 95.76	Sett price 96.03 96.09 95.99 95.77	+0.01 +0.01	High 95.04 65.10 95.00 95.79	Low 96.02 96.08 95.98 95.75	Est. vol 14437 13172 8914 6283	Open 1472 1576 1224 8514
Dec May	Open 96.09 96.10 95.98 95.76	Sett price 96.03 96.09 95.99 95.77	+0.01 +0.01	High 95.04 65.10 95.00 95.79	Low 96.02 96.08 95.98 95.75	Est. vol 14437 13172 8914 6283	Open 1472 1576 1224 8514
Dec Mar Jun Sep	Open 96.09 96.10 95.98 95.76	Sett price 96.03 96.09 95.99 95.77	+0.01 +0.01	High 95.04 65.10 95.00 95.79	Low 96.02 96.08 95.98 95.75	Est. vol 14437 13172 8914 6283	Open 1472 1576 1224 8514
Dec Mar Jun Sep E THREE M	Open 96.03 96.10 95.96 95.76 IOWTH E	Sett price 96.03 96.03 95.99 95.77 SET price	+0.01 +0.01 FUTURE	High 95.04 65.10 96.00 95.79 8 (LIFFE)*	Low 96.02 96.08 95.98 95.75 1.1000m po	Est, vol. 14437 13172 8914 5283 ints of 1009 Est, vol.	Open 1472 1576 1224 8514
Dec Mar Jun Sep E THREE M	Open 96.03 96.10 95.96 95.76 Open 89.49	Sett price 96.03 96.03 95.99 95.77 EUPIOLIFIA Sett price 89.51	+0.01 +0.01 FUTURES Change +0.06	High 96.04 66.10 98.00 95.79 8 (LIFFE)* High 89.55	Low 96.02 96.08 95.98 95.75 1.1000m poi	Est, vol. 14437 13172 8914 5283 ints of 1009 Est, vol. 6266	Open 1472 1576 1224 8514 Open 3550
Dec Mar Jun Sep E THREE M	Open 96.03 96.10 95.96 95.76 IOWTH E	Sett price 96.03 96.03 95.99 95.77 SET price	+0.01 +0.01 FUTURE	High 95.04 65.10 96.00 95.79 8 (LIFFE)*	Low 96.02 96.08 95.98 95.75 1.1000m po	Est. vol 14437 13172 8914 5283 ints of 1009 Est. vol 6266 1623	Open 1472 1576 1224 8514 Open 3550 2340
Dec Mar Jun Sep E THREE M Dec	Open 96.03 96.10 95.96 95.76 Open 89.49 89.82	Sett price 96.03 98.09 95.99 95.77 <b>EUROLIFIA</b> Sett price 89.51 89.79	+0.01 +0.01 Furrules Change +0.06 +0.05	High 96.04 86.10 98.00 95.79 8 (LIFFE)* High 69.55 69.83	Low 96.02 96.08 95.75 1.1000m poi Low 89.45 89.75	Est, vol. 14437 13172 8914 5283 ints of 1009 Est, vol. 6266	Open 1472 1576 1224 8514 Open 3550 2340 1214
Dec Mar Jun Sep III THREE M Dec Mer Jun Sep	Open 96.03 96.10 95.96 95.76 IONTH E Open 89.49 89.82 90.00 89.92	Sett price 96.03 96.09 95.99 95.77 EUROLIFIA Sett price 89.51 89.79 89.61 89.90	+0.01 +0.01 FUTURE Change +0.05 +0.03 +0.03	High 96.04 66.10 98.00 95.79 8 (LIFFE)* High 89.55 89.83 90.00 89.92	Low 96.02 96.08 95.75 L1000m poi Low 89.45 89.75 89.89 98.87	Est. vol 14437 13172 8914 5283 ints of 1009 Est. vol 6286 1623 770 171	Open 1472 1576 1224 8514 Open 3555 2344 1214 765
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Dec Mer Jun Sep E THREE M Dec Mer Jun Sep E THREE M	Open 96.03 98.10 95.98 95.76 IONTH E Open 89.49 89.82 90.00 89.92 IONTH E	Sett price 96.03 96.03 95.59 95.77 EBROLERA Sett price 89.51 89.90 EURO SWING Sett price 97.64 67.69	+0.01 +0.01 +0.05 Change +0.05 +0.03 +0.03 +0.03 SS FFAMO Change +0.02	High 96.04 86.10 98.00 95.73 8 (LIFFE)* High 89.55 89.83 91.00 89.82 FUTURE High 97.71	Low 96.02 98.08 95.95 1.1000m poi Low 89.45 89.45 89.45 89.87 89.87 1.0w 87.64	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFr1m points Est, voi 3425 1575	Open 1472 1576 1224 8514 Open 3555 234 1214 765 of 100 Open 252 131
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Dec Mar Sep M THREE M Dec Mar Sep M THREE M Dec Mar Mar Mar M THREE M Dec Mar	Open 96.09 96.10 95.98 95.76 CONTH E Open 89.48 89.52 CONTH E Open 97.63 97.64	Sett price 96.03 96.03 95.59 95.77 EBROLERA Sett price 89.51 89.90 EURO SWING Sett price 97.64 67.69	+0.01 +0.01 +0.05 Change +0.05 +0.03 +0.03 +0.03 SS FFAMO Change +0.02	High 96.04 86.10 98.00 95.73 8 (LIFFE)* High 89.55 89.83 91.00 89.82 FUTURE High 97.71	Low 96.02 98.08 95.95 1.1000m poi Low 89.45 89.45 89.45 89.87 89.87 1.0w 87.64	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFr1m points Est, voi 3425 1575	Open 1472 1576 1224 8514 Open 3555 2344 1214 765 of 100 Open 2534 1311 421
Dec Mer Jun Sep M THREE M Sep M THREE M Sep Mar Jun Sep	Open 98.03 98.10 95.96 95.76 95.76 95.76 95.76 99.32 90.00 89.92 10.00 97.63 97.53 97.33	Sett price 96.03 96.03 95.77 95.77 80.90 LIRA Sett price 89.51 89.90 89.90 89.81 89.90 89.84 87.84 97.84 97.86 97.86	Change +0.01 +0.01 Furrusass +0.05 +0.03 +0.03 *0.03 Change +0.04 +0.04	High 96.04 86.10 98.00 95.79 8 (LIFFE)** High 89.55 89.89 90.00 88.92 PUTURAL PT.68 97.58 97.38	LOW 96.02 96.08 95.96 95.75 L1000m poi LOW 89.45 89.87 89.87 99.87 Low 67.51 97.52 97.33	Est. voi 14437 13172 8914 5283 ints of 1009 Est. voi 6266 1623 770 171 SFTIM points Est. voi 3425 1576 385 507	Open 1472 1576 1224 851- Open 355; 234; 765 of 100 Open 253- 131; 421
Dec Mar Jun Dec Ma	Open 96.03 98.10 95.98 95.76 95.76 95.76 99.20 99.20 99.20 97.63 97.63 97.33 (Open B. 1.5)	Sett price 96.03 98.08 95.77 95.77 95.77 95.77 99.61 89.51 89.90 97.64 87.69 97.56 97.38 66U PUTUE	Change +0.01 +0.01 FUTURES Change +0.05 +0.03 +0.03 SFFRANC Change +0.04 +0.04	High 96.04 86.10 98.00 95.79 8 (LIFFE)** High 89.55 89.89 90.00 89.92 FUTURAL 97.71 97.58 97.38 © Eculm	Low 96.02 96.08 95.96 95.75 1.1000m poi Low 89.45 89.87 89.87 89.87 1.0w 87.51 97.54 97.52 97.33 points of 10	Est. voi 14437 13172 8914 5283 ints of 1009 Est. voi 6266 1623 770 171 SFrim points Est. voi 3425 1575 395 507	Open 1472 1576 1224 851- Open 355; 234 121- 765 of 100 Open 253- 131; 421 236
Dec Mar Sep Mar Sep Mar Sep Mar Sep Mar Sep Mar Sep Mar Jun Sep Mar Se	Open 96.03 98.10 95.76 95.76 Open 89.49 89.82 Open 97.83 97.83 97.33 Open Den Open 97.63 Pr. San Open Bolt Bolt Bolt Bolt Bolt Bolt Bolt Bolt	Sett price 96.03 98.09 95.99 95.77 SUPPOLITE 89.51 89.79 98.61 89.90 97.54 67.69 97.38 601 FUTUII	Change  +0.01 +0.01 FUTURE Change +0.05 +0.03 +0.03 FFRANC Change +0.02 +0.02 +0.04 +0.04 Change	High 96.04 86.10 98.00 95.79 8 (LIFFE)** High 89.55 89.89 90.00 89.92 PUTURN High 97.68 97.38 © Eculm High	LOW 96.02 96.08 95.75 L1000m pol Low 89.45 89.87 89.87 Low 67.61 97.64 97.52 97.33 points of 10 Low Low	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFrim points Est, voi 3425 1576 395 507	Open 1472 1576 1224 8514 Open 3555 234 1214 765 of 100 Open 2524 1311 421 239
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Dec Mar Sep Mar Sep Mar Sep Mar Jun Sep Ma	Open 96.03 98.10 95.76 95.76 95.76 99.49 99.20 99.92 (ONTH E 97.63 97.33 (ONTH E 94.41 94.50 94.50	Sett price 96.03 96.03 95.97 95.77 95.77 95.77 95.77 95.77 89.51 89.50 89.51 89.90 Sett price 97.56 97.56 97.38 650 FUTUR 94.40 94.50 94.50	Change +0.01 +0.01 FUTURES: Change +0.03 +0.03 +0.03 +0.04 +0.04 +0.04 +0.04 +0.04 +0.04 +0.04 +0.04 +0.02 +0.02 +0.02	High 96.04 86.10 98.00 95.79 8 (LIFTE)** High 89.55 89.83 90.00 89.92 ** FUTURI High 97.59 97.38 © Eculum High 94.52 94.52	Low 96.02 96.08 95.96 95.95 1.1000m poi 89.45 89.85 98.87 98 [LIFFE] \$ 1.0w 87.51 97.64 97.52 97.33 points of 10 Low 94.48	Est, voi 14437 13172 8914 5283 ints of 1009 Est, voi 6266 1623 770 171 SFrim points Est, voi 3425 1575 395 507	Open 1472 1576 1224 8514 Open 3555 234 1214 765 of 100 Open 253 1315 421 238 Open 770 427
Dec Mar Sep Ma	Open 96.03 96.10 95.96 95.76 95.76 99.49 89.82 90.00 89.92 90.00 89.92 97.63 97.63 97.63 97.63 97.63 97.43 97.43 97.43 97.43 97.44 97.44 97.44 97.45 9	Sett price 96.03 98.09 95.99 95.77 SUPPOLITE 89.51 89.79 98.61 89.90 97.64 67.69 97.38 60U FUTUII Sett price 94.40 94.40 94.47	Change +0.01 +0.01 FUTURE Change +0.05 +0.03 +0.03 H0.03 H0.03 H0.04 H0.04 H0.04 H0.04 H0.04 H0.04 H0.04 H0.04 H0.02 H0.02 H0.02 H0.02 H0.02 H0.03	High 96.04 86.10 98.00 95.79 8 (LIFFE)** High 89.55 89.89 90.00 89.92 PUTURN High 97.68 97.71 97.58 97.38 © Eculm High 94.41 94.52 94.48	96.02 96.08 95.75 L1000m po 89.87 89.87 89.87 89.87 98.87 97.64 97.52 97.33 points of 10 84.38 94.40 94.44	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFTIM points 1575 395 507 00% Est, voi 409 105	Open 1472 1576 1224 851- 0 Open 355; 234; 1765 of 100 Open 253; 131; 421; 236 Open 770 427; 285
Dec Mar Sep Se	Open 96.03 98.10 95.76 95.76 95.76 99.20 99.92 90.00 89.92 97.83 97.83 97.83 97.83 97.84 97.83 97.84 97.83 97.84 94.25	Sett price 96.03 96.03 95.99 95.77 889.59 96.51 89.59 98.61 89.90 808.0 \$00.0	Change +0.01 +0.01 FUTURES: Change +0.03 +0.03 +0.03 +0.04 +0.04 +0.04 +0.04 +0.04 +0.04 +0.04 +0.04 +0.02 +0.02 +0.02	High 96.04 86.10 98.00 95.79 8 (LIFTE)** High 89.55 89.83 90.00 89.92 ** FUTURI High 97.59 97.38 © Eculum High 94.52 94.52	Low 96.02 96.08 95.96 95.95 1.1000m poi 89.45 89.85 98.87 98 [LIFFE] \$ 1.0w 87.51 97.64 97.52 97.33 points of 10 Low 94.48	Est, voi 14437 13172 8914 5283 ints of 1009 Est, voi 6266 1623 770 171 SFrim points Est, voi 3425 1575 395 507	Open 1472 1576 1224 851- 0 Open 355; 234; 1765 of 100 Open 253; 131; 421; 236 Open 770 427; 285
Dec Mar Sep Ma	Open 96.03 98.10 95.76 95.76 95.76 99.20 99.92 90.00 89.92 97.83 97.83 97.83 97.83 97.84 97.83 97.84 97.83 97.84 94.25	Sett price 96.03 96.03 95.99 95.77 889.59 96.51 89.59 98.61 89.90 808.0 \$00.0	Change +0.01 +0.01 FUTURE Change +0.05 +0.03 +0.03 H0.03 H0.03 H0.04 H0.04 H0.04 H0.04 H0.04 H0.04 H0.04 H0.04 H0.02 H0.02 H0.02 H0.02 H0.02 H0.03	High 96.04 86.10 98.00 95.79 8 (LIFFE)** High 89.55 89.89 90.00 89.92 PUTURN High 97.68 97.71 97.58 97.38 © Eculm High 94.41 94.52 94.48	96.02 96.08 95.75 L1000m po 89.87 89.87 89.87 89.87 98.87 97.64 97.52 97.33 points of 10 84.38 94.40 94.44	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFTIM points 1575 395 507 00% Est, voi 409 105	Open 1472 1576 1224 851- 0 Open 355; 234; 1765 of 100 Open 253; 131; 421; 236 Open 770 427; 285
Dec Mar Sep E THREE M Sep E THREE M Dec Mar Jun Sep E THREE M THREE M Sep E THREE M SE	Open 96.03 98.10 95.76 95.76 95.76 99.49 99.20 Open 89.92 FORTH E Open 97.53 97.53 97.53 97.53 97.44 97.44 9	Sett price 96.03 96.03 95.99 95.77 889.59 96.51 89.59 98.61 89.90 808.0 \$00.0	Change +0.01 +0.01 +0.02 +0.03 +0.03 +0.03 +0.04 +0.04 +0.04 +0.04 +0.04 +0.02 +0.02 +0.02 +0.02 +0.02 +0.02 +0.04	High 96.04 86.10 98.00 98.79 8 (LIFFE)* High 89.55 89.89 90.00 89.92 FUTURU High 97.59 97.38 E Ecut High 94.41 94.52 94.49 94.27	Low 96.02 96.08 95.96 95.75 L1000m poi 89.45 89.75 89.87 89.87 1.00 97.52 97.53 points of 10 Low 84.38 94.40 94.25	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFTIM points 1575 395 507 00% Est, voi 409 105	Open 1472 1576 1224 851- 0 Open 355; 234; 1765 of 100 Open 253; 131; 421; 236 Open 770 427; 285
Dec Mar Sep Mer Sep Me	Open 96.03 98.10 95.76 95.76 95.76 99.49 99.20 Open 89.92 FORTH E Open 97.53 97.53 97.53 97.53 97.44 97.44 9	Sett price 96.03 96.03 95.03 95.03 95.77 89.60 96.51 89.70 89.51 89.90 80.61 89.90 80.61 89.90 80.61 80.90 80.61 80.90 97.56 97.56 97.56 97.56 94.40 94.50 94.47 94.27	Change	High 96.04 86.10 98.00 98.79 8 (LIFFE)* High 89.55 89.89 90.00 89.92 FUTURU High 97.59 97.38 E Ecut High 94.41 94.52 94.49 94.27	Low 96.02 96.08 95.96 95.75 L1000m poi 89.45 89.75 89.87 89.87 1.00 97.52 97.53 points of 10 Low 84.38 94.40 94.25	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6266 1623 770 171 SFTIM points Est, voi 3425 1575 385 507 00%	Open 1472 1576 1224 851- 0 Open 355; 234; 1765 of 100 Open 253; 131; 421; 236 Open 770 427; 285
Dec Mar Jun Sep E THREE M Dec Mar Jun Sep E THREE M Dec Mar Jun Sep E THREE M LIFE fuures M EUROLIR Strike	Open 96.03 96.10 95.96 95.76 95.76 99.49 99.90 99.90 99.92 99.90 97.63 97.64 97.63 97.64 94.44 94.45 94.44 9	Sett price 96.03 98.09 95.99 95.77 EUFOLIFIA 89.51 89.79 68.61 89.89 97.54 67.69 97.38 601 FUTUR Sett price 94.40 94.47 94.50 94.47 94.50 94.47 94.50 94.47 94.50 94.47 94.50 94.40 CARTELLINE	Change +0.01 +0.01 FISTURES Change +0.05 +0.03 +0.03 FRAMC Change +0.02 +0.04 +0.04 +0.04 +0.02 +0.02 +0.03 +0.04 L1000m	High 96.04 86.10 98.00 95.79 8 (LIFTE)* High 89.89 90.00 89.92 PUTURN 97.68 97.38 E) Ecutim High 94.52 94.41 94.52 94.49 94.27 points of 1	LOW 96.02 96.08 95.75 L1000m po Low 89.87 89.87 89.87 L500 97.84 97.82 97.33 points of 10 Low 84.38 94.46 94.44 94.25	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFrim points Est, voi 3425 1576 385 507 00% Est, voi 776 409 105 139	Open 1472 1576 1224 1224 1234 1214 1214 1214 1214 1214
Dec Mar	Open 96.03 96.10 96.03 96.10 95.96 95.76 99.59 99.00 89.92 90.00 89.92 90.00 89.92 90.00 89.92 90.00 97.63 97.64 97.53 97.64 94.44 94.25 site tradition of the control of t	Sett price 96.03 98.09 95.99 95.77 SUPPOLITE 89.51 89.90 98.81 89.90 89.81 89.90 89.86 97.86 97.88 601 FUTUI Sett price 94.40 94.50 94.47 94.27 ad on APFE	Change +0.01 +0.01 FUTURE Change +0.03 +0.03 +0.03 85 FFRAMC Change +0.02 +0.04 +0.02 +0.04 +0.04 L100om	High 96.04 86.10 98.00 95.79 8 (LIFTE)* High 89.55 89.83 90.00 89.92 PUTURN High 97.68 97.71 97.58 97.38 © Eculm High 94.41 94.52 94.49 94.27 points of 1	Low 96.02 96.08 95.75 L1000m po Low 89.45 89.87 89.87 99.87 1.00 fo St. 10 f	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFTIM points Est, voi 3425 1575 395 507 10% Est, voi 409 105 139 PUTS Mar	Open 1472 1576 1224 8514 1214 7565 of 100 Open 2532 1311 421 236 Open 770 427 285 142
Dec Mar Sep Mar Jun Sep Mar Ju	Open 96.03 98.10 95.76 95.76 95.76 99.22 90.00 89.92 97.83 97.83 97.83 97.83 97.84 94.25 98.40 pen 94.41 94.50 94.40 94.25 98.40 pen 94.40 pen 9	Sett price 96.03 96.03 95.99 95.77 80.90 95.77 80.90 80.51 80.90 80.51 80.90 80.80 8	Change +0.01 +0.01 FETURE: Change +0.03 +0.03 +0.03 SEFFANC Change +0.02 +0.04 +0.04 +0.02 +0.02 +0.02 +0.02 +0.03 +0.04	High 96.04 86.10 98.00 95.79 8 (LIFFE)* High 89.55 89.83 91.00 89.92 FUTURI HIGH 97.58 97.71 97.58 97.44 94.52 94.49 94.27 points of 1	LOW 96.02 98.08 95.06 95.75 L1000m po LOW 89.45 89.75 89.87 98.87 97.84 97.52 97.83 points of 10 Low 94.38 94.46 94.25 000%	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFr1m points Est, voi 3425 1576 395 507 00% Est, voi 409 105 139	Open 1472 1578 8514 1224 8514 1224 1234 1234 1234 1234 1234 1235 1234 1235 1235 1235 1235 1235 1235 1335 1335
Dec Mar Jun Sep E THREE M Dec Mar Jun Sep E THREE M Dec Mar Jun Sep E THREE M M Dec Mar Jun Sep E THREE M M Dec Mar Jun Sep LIFE fulles M EUROLIR Strike Price	Open 96.03 96.10 96.03 96.10 95.96 95.76 99.59 99.00 89.92 90.00 89.92 90.00 89.92 90.00 89.92 90.00 97.63 97.64 97.53 97.64 94.44 94.25 site tradition of the control of t	Sett price 96.03 96.03 95.03 95.03 95.77 95.77 80.651 89.79 96.61 89.79 96.61 89.79 97.56 97.56 97.56 97.56 97.56 97.57 MG on APT DMS (AFFE) CAL	Change +0.01 +0.01 FUTURE: Change +0.03 +0.03 +0.03 SEFFANC Change +0.02 +0.04 +0.02 +0.02 +0.03 +0.03	High 96.04 86.10 98.00 95.79 8 (LIFTE)* High 89.55 89.83 90.00 89.92 PUTURN High 97.68 97.71 97.58 97.38 © Eculm High 94.41 94.52 94.49 94.27 points of 1	Low 96.02 96.08 95.75 L1000m po Low 89.45 89.87 89.87 99.87 1.00 fo St. 10 f	Est, voi 14437 13172 8914 6283 ints of 1009 Est, voi 6286 1623 770 171 SFTIM points Est, voi 3425 1575 395 507 10% Est, voi 409 105 139 PUTS Mar	Open 1472 1576 1224 8514 Open 3555 2346 1214 765

WORLD INTEREST RATES

MONEY RATES

week ago

US Dollar COs.

CROSS	RATES	AND	DER	VATIVE	S							-						
EXCHAI	NGE CR	280	RATES															
Oct	14	BFr	DKr	FFr	DM	医	L	Ħ	NKr	Es	Ptz	SKr	SFr	£	CS	5	<u>Y</u>	Ecut
Beigium	(BFr)	100	18.87	16,80	4.863	2,098	5452	5.445	21.35	509.0	419.7	23.57	3.911	2.140	4,508	3,386		
Denmark	(DKr)	52.99	10	8,902	2.577	1.112		2.886	11.31	269.7	222.4	12.49	2.072	1.134	2.389	1.794		
France	(FFr)	59.53	11.23	10	2,895	1.249	3245	3.242	12.71	303.0	249.9	14.03	2.328	1.274	2.683	2.016		
Germany	(DM)	20.56	3.880	3,454	1	0.431	1121	1.120	4,390	104.7	86.31	4.846	0,804	0.440	0.927	0.696		
Ireland	(IE)	47.67	8.006		2.318	1	2599	2.596	10.18	242.7	200.1	11.23	1.864	1.020	2.148	1.614		1,252
Italy	<b>ፈ</b> ን	1,834	0.346		0,089	0.038		0.100	0.392	9.336	7.899	0.432	0.072	0.039	0.083	0.062		0,048
Nexteriunda	(F)	18.36	3.485		0.893	0.385		1	3.921	93,47	77.08	4.328	0.716	0.393	0.828	0.622		0.482
Norway	(NKI)	46.84	8.639		2.278	0.983		2.551	10	238.4	195.5	11,04	1.832	1.003	2.111	1.586		
Portugal	(Es)	19.65	3.707		0.955	0.412		1.070	4,194	100.	82.46	4.630	0.768	0.421	0.666	0.565		
Spain	(Pts)	23.82	4.498		1.159	0.500		1.297	5,086	121.3	100.	5.614	0.932	0.510	1.074	0.807	61.49	
Sweden	(GKI)	42.43	8.007		2.064	0.690		2.311	2.059	216.0	178.1	10	1.659	0.908	1.913	1.437	145.1	
Switzeriand		25.57	4.825		1.244	0.536		1,392	5.459	130.2	107.3	6.026	1	0.547	1.153	0.866		0.672
UK	(E)	46.72	8.818		2.272	0.860		2,544	9.974	237.8	796.1	11.01	1.827	1	2.106	1.582		
Cenada	(CS)	22.16	4.188		1.079	0.465		1.208	4,736	112.9	83,11	5.228	0.868	0.475	1	0.751	75.88	
US	[20]	29.53	5.573		1.436	0.616		1.808	6.305	150.3	124.0	6.960	1.155	0.632	1.331	0.990	101.0	0,776 0,768
Japan	m	29.24	5.517		1.422	0.618		1,592	6.242	148.8	122.7 150.8	6.890	1.143	0.628	1,316 1,718	1.289		
Ecu		38.08	7.185		1.852	0.796		2,073	6.129	193.8		8.973	1.489	416.0	1.710	1.200	130.2	'
Darush Kroner	. Franch Fran	o, Narweg	Her Kroner,	and Swedn	in Kronoi	par lu	Pedies L	BE, 781, C										
D-MARK	FUTURES	(MM) D	M 125,000	per DM					# J	<b>SANGE</b>	E YEN P	UTURES	(IMM) Yen	12.5m pe	r Yen 1	003		
	Open	Latest	Change	. High	L	WC	Est. voi	Open int.			Open	Latest	Change	_		OW	Est vo	Open int
Dec	0.6960	0.6964	-0.0007	0.6996	3.0	953	26,396	48,337	Dec		0.9980	1.0001	+0.0017	1.003		940	22,894	58,277
Mar	0.7018	0.7018	-0.0008	0.7018	3 0.7	029	185	2,360	Mar		1.0170	1.0142	+0,0017	1.017	0 1.0	1140	243	8,239
Jun	-	0.7050	-			-	2	62	Jún			1.0258		-		•	53	309
												E2 MAA	£62,500 p					
SWISS F	RANC PUT	URES (I	MIM) SET 1	commo ber	317													
Dec	0.8703	0.8718	+0.0003	0.8737	0.8	865	13,165	30,438	Dec		1.5772	1.5786	-6,0022	1.579	4 1.5	760	<b>8</b> ,709	31,070

Strike Price

9<del>0</del>03

1.5843 1.5775 1.5181 1.5114 2.1097 2.0975 2.1049 0.5 2.1048 0.2 2.1098 -0.2 10.3809 10.2868

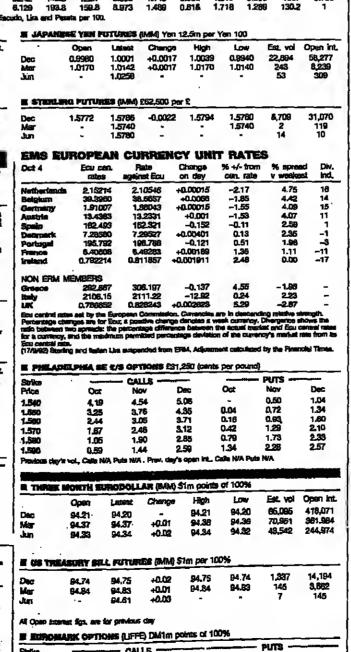
-jun		U.GD/O		0.0010			
UK IN	TERES	T RATE	E\$		100		
LONDO	N MO	NEY RA	TES				
Oct 4		Over- night	7 days notice	One month	Three months	Six months	Ass. Oue
interbank St	erling	7 <sup>1</sup> 2 - 8	512 - 616	634 - 858 613 - 659	6년 - 6년 8년 - 65	63, - 63 63 - 63	64 - 64 64 - 64
Sterling CDs Treasury Bits		:		611 - 613	613 - 613	-11 -11	•
Bank 805	•			613 - 65	63 - 64	64 - 65	64 - 85
Local author Discount Ma	ity deps.	612 - 612 614 - 612	611 - 612 614 - 613	64 - 64	- 04		- 04
			03. mar m	and form Edi	haster 2, 19	85	
UK clearing	benk bese	lending nut	Lipto 1 month	1-3	3-6 months	6-9 months	9-12 months
		2.000		532	54		64
Certs of Tax Certs of Tax of Ase, tender of 1895, Agreed period Sep 1. October 1, 19	iop. under S to oil discou rate for par 1985 to Se	6.5302pc	195 to Nov 2 chames IV &	5, 1985, Seh V 6.795pc. F	men 1 & 11 t Instruction	Biss Pine ts of 100%	/pe trom
1100		Sett price	Change	High	Low	Est. Vol	. upon 44
	Open co.47	93,45	-0.02	93.47	93.43 -	9097	103758
Dec	99,47 93,58	93.55	-0.01	93.58	93.51	11550	60398
Mar Jun	93.53	93.52	-0.01 +0.01	93.54	93,48	7702 4564	47309 34346

+0.0013 0.8809

0.8800

SHORT 5		- CALLS -				
Strike		Mar	Jun	Dec	Mar	Jun.
Pnce	Dec		0.58	0.08	0.16	0.31
9525	0.28	0.48	0.43	0.18	0.27	0.41
	0.15	0,32	- 01	0.95	0.40	0.54
2350) 2375 Set. vol. torol. (	0.05	0.20	0.31 <sub>16 day</sub> 's open	inc., Calls 13	2090 Puts 118	965
est work toroni. C	alls 7070 Pub	5 1430. Fresion				

BASE LENDING RATES											
% Adam & Company	10 8.75 8.75 8.75 8.75 8.75 8.75										



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been declared by the Directors and is detailed below:

UK Fixed Interest £ 0.037 Multicurency Bond UK Sterling Liquidity £ 0.030 **US Dollar Liquidity** U\$\$ 0.033

Registered Shareholders at the close business on 30. September 1995 will receive the above payments in £ or USS (as requested) on or after 15.



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Initialist Serve \$ 9.00
Initial 1905 by 1906 b Price 2276 | See | - キュン | ニント | カン・キュキカ・トゥー | カラカ | カギン | オキン | オキン | カラン | カギン | オキン | オキン | カラン | カギン | オキン | オキン | カラン | ## 2177 \$ 1917 \$ 14 5 5 4 4 477 \$ 5 6 10 2 2 2 5 5 4 4 7 7 8 5 6 2 2 2 2 5 5 4 4 7 8 5 6 2 2 2 2 5 5 4 4 7 8 5 6 2 2 2 5 6 2 5 6 2 | Michael | Mich 4.5 2.9 Approved by the interest Personal

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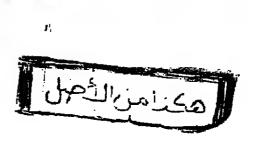
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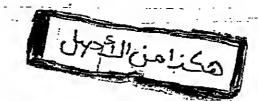
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#### LONDON STOCK EXCHANGE

#### Takeover cash gives further boost to equities

UK Stock Market Editor

More evidence that cash from the recent spate of takeover bids in the regional electricity sector has been pushed back into the equity market, plus a fundamental stock shortage across the market, drove UK shares

higher again yesterday. Once again, the possibility of imminent corporate activity was said to have been behind strong gains in various sectors of the

True to recent form, the utilities provided more than their fair share of interest, with speculators shifting their sights in the electricity stocks towards East Midlands Electricity and Yorkshire.

Another hint in utilities was that the much heralded bid for Northumbrian Water from Lyonnaise des Eaux would come in lower than pre-

viously thought.
The FT-SE 100 index ended a buoyant session only a shade below the day's best, closing 19.9 higher at 3,544.1. The second-line stocks continued to leave their senior brethren behind, with the FT-SE Mid 250 index climbing 15.2 to 3.988.8.

Strong gains across the board in the equities market owed nothing to Wall Street, where the Dow Average, which dropped some 11 points overnight, came in weaker again, falling well over 20 points within 90 minutes of London's close, with US markets said to be increasingly neryous ahead of tomorrow's US nonfarm payroll figures.

Dealers did point out, however, that European markets had taken heart from the recent encouraging performance of US Treasury bonds, where yields have moved to their lowest levels this year.

The trend in US bonds was said to bave sustained UK gilts, which ended a few ticks higher yesterday. Some traders felt the market was already discounting more bid activity. "It wouldn't take too much for this market to get very windy indeed," said one. Strategists are

becoming increasingly cautious as the FT-SE 100 moves to within stri-king distance of its all-time high. The best individual performances

in the FT-SE 100 came from Court-aulds and the two classes of HSBC stock, where SBC Warburg was said to be promoting big switching between the Hong Kong and UK registered stock.

On the downside, Bank of Scotland took the dubious honour of worst performer in the premier index, after announcing disappointing half-year profits and a below consensus dividend.

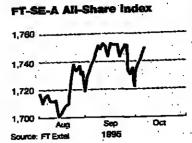
Of the front runners in the FT-SE Mid 250, Vickers responded to broker recommendations, while Willis

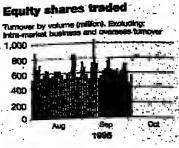
Corroon, the insurance broker, caught up with fellow broker Sedg-wick, which made rapid gains on Tuesday. Both stocks have been

languishing at near-record lows.

Turnover in equities increased significantly, reaching 749.2m shares by 6pm. Activity in non-Footsle stocks eccounted for 60 per cent of overall trade. Tuesday's exceptionally heavy programme trading business gave a substantial boost to customer turnover, which topped the £2bn mark, eventually settling at £2.03bn. Retail business has topped £2hn once in the past two weeks, indicating that the institutions have been increasing their

exposure to the equity market.





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T-SE 100 T-SE Mid 250 T-SE-A 350 T-SE-A All-Share T-SE-A All-Share yield	3544.1 3983.8 1770.7 1749.84 3.81	+19.9 +15.2 +9.2 +8.56 (3.83)

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#### Price cut hopes for chemicals

Hard-pressed chemicals group Courtaulds, left behind within the sector because of raw materials worries, bounced back to record the best performance in

The shares had fallen 60p over recent weeks, but Kleinwort Benson picked up on press articles suggesting that the price of two key raw materials used by the company were stabilising, and possibly falling.

Yesterday, the bouse was telling clients that acrylonitrile, used in the production of actylic fibres, appeared to be falling, while wood pulp, up at a record high, could be

Mr Mike Lewis of Kleinwort Benson commented: "The gross margin pressure they have had from raw materials prices is quite significant. The whole market is waiting to call the turn on this one." As a result, Courtaulds shares jumped 15 to 415p on turnover of 1.9m.

#### Recs again active

Bld activity in the regional electricity companies centred oo East Midlands, which jumped for the secood day running. The shares advanced 26

The company is one of the six remaining independent electricity groups along with London, Seeboard, Swalec, Yorkshire and Northern, Dealers were suggesting a possible

link with Yorkshire, although Yorkshire spokesmen were pouring cold water on the idea. There was also renewed talk that British Gas might be interested in a utility but the company has apparently been steering city analysts away from that. Turnover in the

stocks remained subdued but, as analysts pointed out, so was the turnover in Southern Electric last week, which raced more than 60p ahead before the company announced it was in All the bld contenders -

except for Northern which had divested much of the share value during its fighting with Trafalgar house - were up yesterday. London bounced 14 to 911p, Seeboard 10 to 503p and Swalec 7 to 932p. Northern declined 9 to 7760.

#### P&O nervous

P&O came in for some nervous selling ahead of today's lunch with institutions and

brokers The transport leader is pushing out the boat at the Cafe Royal, and following some uninspiring September traffic numbers from Channel tunnel operator Eurotunnel some dealers were taking bets that the news on trading would not be over positive.

P&O's ferry operations account for around 15 per cent of group earnings and in recent months returns on this side of the business have been savaged by beavy price discounting. The shares shed 10 to 480p in 2.7m traded. Eurotunnel eased 2 to 95p.

Leading engineering stock Vickers jumped almost 7 per cent following a reiterated

undervalued stance from ABN Amro Hoare Govett. which hosted a lunch for institutional investors on Tuesday. The shares closed 17 higher at 262p in 2.3m traded.

Rolls-Royce, which is undertaking a series of Scottish pre-sentations this week, added 4 at 182p. Footsie inclusion hopes got behind Smiths Industries. The stock, capitalised at £1.8bn, is one of the Footsie reserves should takeovers lead to gaps in the index. It moved forward 8 to a new high of 597p for a two-day

advance of 15p. Brokers Williams de Broë turned seller on British Steel. The stock saw 6.9m shares traded and finished 314 lower at 181p.

In the waters, Northumbrian, seen as a target for Lyonnaise des Eaux, of France, receded 14 to 1019p. The market had forecast a bid price of £12 a share but, yesterday.

French company would pay no more than £10 a share. Also, Yorkshire fell 6 to 654p

as Hoare Govett argued that outperformance of 11 per cent against the broad market in the space of a week was too much, too soon. The bouse advised switching into North

West Water, np 3 at 594p. Construction and building materials stocks showed up prominently in the the FT-SE Mid 250 rankings. Investors were said to be casting around for good value and picking up stocks that had stayed outside the summer rally for equities generally. Both sectors have lagged behind the market as a whole by around a fifth over

the past year. Pilkington advanced 9 to 209p, belped by a reiterated buy recommendation from Societé Générale Strauss Turnbull. Taylor Woodrow put on 5 to 111p and Wimpey closed 5

#### FINANCIAL TIMES EQUITY INDICES

	Oct 4	Oct 3	Oct 2	Sep 28	Sep 28	Yr ago	"High	Low
Ordinary State	2627.3	2513.7	2607.5	2601.5	2566.6	2286.S	2066.5	2238.3
Ord. div. yield	4.08	4 10	4,11	4,12	4.14	4.51	4.73	4.02
P/E ratio net	15 B2	15.73	15 69	15.64	15.58	17.18	21.33	15,47
P/E ratio nil	15.63	15.55	15.48	15.46	15.38	17.21	22.21	15.25
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2613.2	2622.5	2628.1	2629.0	2625.7	2524.4	2623.9	2623.8	2626.6	2629.7	2612.4
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Oct. 4 "Data based on Equity shares listed on the London Share Se

#### there were worries that the higher at 113p. Wolseley, which puts out full-year results later this month, added 6 at

That broad trading trends in the industry remain negative was bourne out by the interim statement from plant hire specialist Hewden-Stuart. Smith New Court cut its profits estimate for this year by 13 per cent to £37m. The shares

dropped 91/2 to 1331/sp. Rnmours of boardroom changes, possibly before the end of the month, continued to track electronics giant GEC. The shares closed a penny firmer at 330p after another heavily traded session in which 9.1m shares changed

hands. Bank of Scotland's interim results were in line with forecasts but costs were up 17 per cent and the disappointment over the underlying figures was responsible for sending the shares down 7 to 240p, the worst performance in the FT-SE 100.

Distribution and storage sne cialist Transport Development came off 61/2 to 2051/sp following a placing of 17.4m shares by NatWest Securities.

Troubled UK exhibitions organiser Blenheim, which has now largely completed a restructuring programme gained 16 to 236p after announcing current trading was in line with tts budget. Chemists' chain Boots was a

strong feature as the shares appreciated 8 to 591p on reports that the summer's extreme weather had boosted Talk of a broker downgrade

in Great Universal Stores along with concerns about the group's mail order business. left the shares 3 lighter at 603p after trade of 2.4m. Storebouse eased 2 to 300p

on nervousness ahead of today's trading statement. Reduced interim profits from Austin Reed, together with a

market disappointed and the shares fell 3 to 192p. Vague bid talk continued in Lloyds Chemists. The shares firmed 8 to

247p. A purchase of 20,000 shares by a First Choice Holidays director helped the shares firm

penny to 66p. Food manufacturer Unilever put on 7 to 1,264p after Societe Generale Strauss Turnbull was said to have relterated its buy stance on the stock on hopes of better growth prospects in Europe for the company in

Morgan Stanley were said to have been the big huyer of Cadhory Schweppes. The shares jumped 12 to 492p, on volume of 3.2m, Hillsdown firmed a penny to 176p, with NatWest Securities said to have advised investors to add to holdings.

Further broker's recommendations helped boost Whitbread and the shares put on another S to 636p, on volume of

price paid p up

**FUTURES AND OPTIONS** E FT-SE 100 INDEX FUTURES (LIFFE) \$25 per full index point Est. vol. Open int Sett price Change High Low +30.0 61376 3552.0 3575.0 3608.0 2293 3612.0 +30.0 3605.0 E FT-SE MID 250 PIDEX FUTURES (LIFFE) 210 per full index point 4010.0 4010.0 +15.0 4010.0 4010.0 # FT-SE 100 INDEX OPTION (LIFFE) ("3542) £10 per full index point

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MARKET REPORTERS: Jeffrey Brown.

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TO OUR CLIENTS ACROSS EUROPE, WHO WITH OUR HELP HAVE SUCCESSFULLY LET OR ACQUIRED THOUSANDS OF PROPERTIES THIS YEAR ALONE.

TO THOSE WHO VALUE OUR ADVICE, FOR WHOM WE HAVE ACTED DISCREETLY ON AN EQUALLY WIDE RANGE OF PROJECTS.

TO OUR COLLEAGUES IN CUSHMAN & WAKEFIELD WORLDWIDE, WHO PROVIDE A SERVICE PARALLEL TO OUR OWN THROUGHOUT THE WORLD.

TO OUR PARTNERS AND STAFF IN HEALEY & BAKER OFFICES EVERYWHERE.

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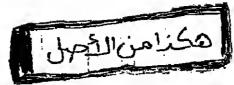


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# **Technology shares** retreat in low volume

#### **Wall Street**

Investors continued to batter technology shares in early trading yesterday, bringing losses in the Nasdaq compos-ite, which is weighted towards that sector, to nearly 5 per cent in the past week and a half. urites Liso Bransten in New

At 1 pm the Nasdaq composite was 18.50 lower at 1.001.95. The Pacific Stock Exchange technology index added a decline of 2.8 per cent to the 0.9 per cent it lost on Tuesday. Volumes were very thin due

to the Yom Kippur holiday. Leading the technology decline were semiconductor shares, five of which were downgraded by an analyst at SoundView Financial Group wbo said that an easing of the semiconductor sbortage could have an impact on prices.

LSI Logic was the hardest hit of the companies included in the report, falling 11 per cent or \$6 to \$50%. The others were: Integrated Device Technology, off 10 per cent or \$2% at \$20%. VLSI Technology, \$31/2 lower at \$281, and National Semiconductor, down \$1% at \$25%.

Other sectors posted more modest losses, with the Dow added \$1/4 at \$781/4.

Jones Industrial Averege underperforming the more broadly hased Standard & Poor's 500 as fears about poor third-quarter earnings continued to weaken cyclical shares. The Morgan Stanley index of cyclical shares shed 1.5 per

cent in early trading yesterday. Weak cyclical issues in the Dow included Du Pont, \$1% cheaper at \$64%. International Paper, \$1% lower at \$39, and United Technology, which shed \$1% to \$83%.

At 1 pm the Dow was off 20.23 at 4.729.47, while the S&P 500 dipped 2.14 to 580.20 and the American Stock Exchange composite lost 3.95 at 532,75. NYSE volume came to 198m

US Treasuries were steady as economic data on August manufacturing orders and the index of leading economic indicators were both in line with the median estimates from economists. The dollar, however, softened as traders took some profits before this weekend's meeting of the G7 finance ministers.

Bankers Trust declined \$11/4 to \$68% after a judge allowed Procter & Gamble to add a racketeering charge to its law-suit against the US bank. P&G

Toronto drifted lower at midday as the market entered the traditional October doldrums. The TSE-300 composite index eased 6.81 to 4,492.68 in volume of 36.4m shares.

Financials were mostly firm. with Bank of Nova Scotia ahead C\$1/4 at C\$291/4, but Bank of Montreal gave up an early advance to trade Csi down at

Leaders among losing stocks included the Four Seasons Hotels chain, which dropped C\$1 to C\$16, and the software maker Softquad International, which fell C\$% to C\$5%.

Another falling issue was Tee-Comm Electronics, which makes satellite television disbes, down C\$% to C\$17% after its sharp rise during the past few sessions.

#### **SOUTH AFRICA**

Demand for blue chip industrials picked up in Johannesburg on positive local economic factors and expectations of strong corporate earnings growtb. The overall index gained 12.3 at 5,662.3, industrials moved forward 7.4 to 7.103.9 and golds improved 5.9 to 1,494.7.

# French car components sector tumbles

Underlying weakness in the car components sector was demonstrated in PARIS, where Sommer-Allibert tumbled by 14 per cent following brokers' downgrades. The shares lost FFr236 to FFr1,460 in reasonable volume.

A perception that there were difficult times ahead for the industry put pressure on other companies. Bertrand Faure falling FFr8.50 to FFr170.90, bringing its drop to 21 per cent since its year's high of FFr218 at the end of May; Valeo, which reported a 10 per cent increase in nine-month sales, sbed FFr9.70 to FFr227.50.

Carmakers fared better, with Renault up FFr1.30 at FFr144.80 and Peugeot steady at FFr669. James Capel said yesterday it did not helieve that the recently announced government initiatives to stimulate the French car market would have a significant impact on profits. "Contrary to general expectations," said the hroker's automotive industry team. "we calculate that they [the incentives] will bave virtually no effect on the profits of either company . . . the extent of the impact is within the margin of error on our profit forecasts, which we are

therefore leaving unchanged for both years." The CAC-40 index moved forward 3.17 to 1.803.87.

UAP was the day's best performer with a gain of 7 per cent or FFr7.90 at FFr119.30 after the insurer reported interim figures which seemed to please many analysts.

FRANKFURT came hack from a day's holiday, rose in sympathy with the Paris and Zurich gains on Tuesday, and traded in a narrow range as the Ibis-indicated Dax index closed 14.59 higher at 2.211.60. The recovery in the dollar helped, although this was trimmed back by profit-taking

after good gains in the US and

Asia overnight.

A small cut in the repo rate, meanwhile, highlighted the rise in bunds: financials responded, with Allianz, Bayernhypo and Bayernverein rising by DM38 to DM2,609, 47 pfgs to DM36.22 and 66 pfgs to DM41.36 respectively; and utilities had another good dey, with Veba, in particular, op 80 pigs to DM58. Mr Michael Geiger, Ger-man strategist at CS First Boston, said that utilities, although liquid, had been hit by bood portfolio write-downs at this time last year, and that the potential absence of this

ing the sector. Turnover rose from DM3.6bn to DM5.4bn. Preussag climbed DM9 to DM435 on the sale of its Hagenuk subsidiary, completing its withdrawal from the

to break up its operations, con-

problem in 1995 was still help-

FT-SE Actuaries Share Indices THE EUROPEAN SERIES 12.00 12.30 13.00 14.00 15.00 Close Hourty changes FT-SE Eurotrack 100 1425-58 1424.93 1424.48 1424.35 1425.63 1424.42 1422.24 1422.96 FT-SE Eurotrack 200 1530.13 1529.62 1529.42 1528.41 1527.82 1528.40 1527.32 1528.03 Oct 3 Oct 2 Sup 29 Sep 28 Sep 27

telecommunications industry where the group had failed to achieve critical mass. Volkswagen underperformed, down 80 pigs at DM464.60 after the European Commission said that the car maker must cut capacity by 5 to 6 per cent in Europe to get aid for its Span-isb Seat subsidiary.

Outside the Dax, weakness in construction prospects left Dywidag down DM15 or 6.4 per cent at DM220, and Bilfinger & Berger DM20 lower at

MILAN was unsettled by a sharp fall in the Fiat share price, and while the Comit index edged 1.36 higher to 613.72 the real-time Mibtel index slipped 29 to 9,779.

Fiat tumbled L254 or 4.3 per cent to L5,651 after an investors' presentation in London on Tuesday which highlighted a sharp fall in the company's Brazilian sales since July after import tariffs were raised. The news brought a flurry of

rumours in Milan and raised questions over second-half earnings. However, Mr Nicholas Potter at Credito Italiano International noted that details of developments in Brazil were already known, adding that Fiat planned to produce the Tipo model in Brazil from November. He added that the arrival of the company's Project 178 - a Punto-sized world car for emerging markets next year meant that Fiat was

"still extremely well placed". Telecom Italia Mobile rose L58 to L2,792 in spite of news that the European Commission wanted the government to compensate Omnitel Pronto Italia for the L750bn licence fee which it had to pay to operate the second GSM network.

ZURICH paid a brief, early visit ahove the 3,055-point resistance level but the move proved unsustainable and prices soon turned back. The SMI index finished 12.5 lower at 3,036.5, after a peak of 3,064.0 and as analysts noted that the 3,055 level had also proved a strong resistance level when the market last encountered it in the early months of 1994. Among blue chips, Nestle registered lost SFY7 to SFr1.025 as the dollar weakened, and

Roche certificates fell SFr45 to SFt8.155. Swiss Re stood out among weaker financials, picking up SFr1 to SFr1,144. After the market closed, the insurer announced that it was launching two investment funds with

CS Holding AMSTERDAM took in a solid gain from KLM, up F11.20 to F157.60 on speculation that British Airways might seek out a strategic link with the Dutch carrier following takeover rumours in the US

The AEX index rose 0.12 to 463.92. Royal Dutch moved up Fl 2.20 to Fl 199.40 assisted by further brokers' upgrades.

STOCKHOLM's saving grace was Astra, the pharmaceuticals group, np SKr3.50 to SKr252.50 on what was seen as an international switch into defensive stocks. Ericsson B dropped SKr5 to SKr159, Volvo B SKr4 to SKr163.50, and the Affärsvärlden General index closed 8.9 lower at 1,815.6.

Written and edited by William Cochrane, Michael Morgan and

Mexico City was down a further 1.2 per cent in early trade following the rise in domestic interest rates. The IPC index declined 28.02 to

SAO PAULO resumed its downward trend and was off 0.8 per cent in light midday trading following the drop on the Mexican bourse. The Bovespa index stood 350 lower at 44,692 at 1 pm in thin turnover of R\$133m (\$138.8m).

Speculation ahead of mid-October options and

futures settlements also contributed to the market weakness, brokers said. Telebras retreated 0.7 per cent to R\$43.50 and

Eletrobras preferred slipped 0.4 per cent to R\$278 by noon. Petrobras preferred was traded at R\$95.01, down 1.5 per cent.

BUENOS AIRES was slightly firmer by midmorning in spite of the release of data showing that inflation bad risen slightly during September. The Merval index put on 2.18 at 560,13,

			Dollar terms	KLY INVESTABLE PRICE INDICES  Local currency terms			torme
Market	No. of Sep stocks	otember 29 1995	% Change over week	% Change on Dec '94	September 29 1995	% Change over week	% Change
Latin America	(252)	496.75	-2,2	·14.4			
Argentina	(30)	681.67	-0.0	-7.2	418,249,85	-0.8	-7.2
Brazil	(72)	342.55	-0.9	-10.9	1,221,66	-1.0	+0.3
Chile	(36)	751.70	-2.3	-4.2	1,201,29	-0.5	-4.7
Colombia <sup>1</sup>	(16)	636.98	+0.4	-21.5	1.089.11	-0.8	-9.0
Mexico	(67)	478.79	-4.8	-21.2	1,314.02	-4.5	+1,8
Peru*	(19)	196.52	-1.5	+10.2	270.02	-1,0	+13.6
Venezuela <sup>3</sup>	(12)	404.05	+1.4	-18.4	1,577.04	+1.4	-18.4
Asia	(657)	240.28	-1.7	.3.7	•		
China*	(20)	66.88	-2.5	-11.8	70.31	.2,5	-13.2
South Korea <sup>5</sup>	(159)	141.66	-0.9	+3.6	143.03	-1.2	+0.9
Philippines	(25)	259.87	-3.9	-12.8	327,09	-3.7	-6.9
Taiwan, China	(93)	110.92	+2.3	-32.5	112.68	+0.9	-30.6
India"	(101)	93.04	+0.4	-24.7	112,12	+0.8	-18.5
Indonesia <sup>4</sup>	(42)	107.18	-0.6	+7.4	131.90	-0.7	+10.8
Malaysia	(114)	277.35	-2.3	+3.2	256.95	-22	+1.4
Pakistan*	(36)	292.79	-5.0	-20.0	419.06	-4.9	-18.1
Sri Lanka o	(19)	106.40	-1.1	-38.1	120.59	-1.1	-35.0
Thailand	(68)	380.17	-1.1	-0.9	378.58	-1.0	-1.0
Euro/Mid East	(210)	135.17	-0.4	+14.1			
Greece	(40)	257.21	-1.7	+14.0	403.69	-1.1	+9.8
Hungary"	(5)	127.09	-1.1	-16.3	198.78	-0.5	-3.8
Jordan	(8)	185.49	44.3	+23.6	277.87	+3.8	+24.9
Poland <sup>™</sup>	(16)	485.73	-0.8	+3.5	743.78	-0.3	+3.3
Portugal	(28)	118.26	+0.2	-2.3	121.52	+0.7	-8.3
South Africa	(64)	235.84	-0.4	+4.9	177.80	-0.4	-6.0
Turkey⁴	(4-1)	129.06	-0.2	+6.0	2.983.88	+2.4	+34.8
Zimbabwe*	(5)	264.03	+0.5	+7.9	343.17	+1.5	+13.9

(1119)279.56

The Argentine equity market has suffered this year, and while that suffering may not have been quite so great as in Mexico or Brazil, the outlook remains uncertain, writes

John Pitt.

Indeed, as Saloman Brothers comments in its latest Latin American strategy publication, performance in both the stock and debt markets is likely still to be influenced heavily over the coming months by the tense political relationship between President Carlas Menem and Mr Domingo Cavallo, his economy minister.

Mr John Purcell and his team in New York observe that the ontlook for the Merval index in the short term "is likely to be determined by the related factors of investor confidence and the resurgence of economic growth; confidence and growth, in turn, depend heavily upon whether domestic and foreign investors can rely on the preservation of the country's convertibility law and stable macroeconomic policy". The problem is that this programme, in must investors' minds, depends very much on the survival in office of Mr Cavallo, say Salamon. Hence, if he resigns suddenly or is sacked by Mr Menem there would be a sharp fall in the Merval. "The untlook, therefore, to an unusually large extent revolves around the single political question: can Argentina's economic policy be depersonalised and depoliticised?"

But Mr Purcell thinks that the government has more to lose than gain by upsetting market sentiment further, believes that the political situation will probably stabilise and, therefore, forecasts "a significant stock market rally in excess of 30 per cent within the next six to eight months".

180.72 123.39

0.2

..192.69

144.15 181.15

Local Currency Index

261.06 139.50

FT/S&P ACTUARIES WORLD INDICES

NATIONAL AND REGIONAL MARKETS

Australia (82)......

a high of 18,346,55.

The Topix index of all first

At one point the Nikkei dipped below Tuesday's close. In the afternoon session, while large-capital shares continued to attract some huyers, highpriced electronics stocks such as Fanuc began to show gains. Fanuc jumped Y320 to 4,800, while TDK added Y80

Steelmakers, among Tues-

#### ASIA PACIFIC Weak Mexico pressures Brazil Nikkei steady as Manila drops by 1.9%

#### Tokyo

Supported by renewed dollar strength and foreign buying of large-capital issues, but restrained by profit-taking, stocks closed only slightly higher in the wake of Tues day's strong advance, writes

Robert Pation in Tokyo. The Nikkei 225 average gained just 2.09 points at 18,145.08 following Tuesday's 403.15 rise. Equities remained in a narrow range all day, with a morning low of 18,056.20 and

section stocks moved up 7.53 to 1,451.99. Winners outnumbered losers by 660 to 348, with 178 issues unchanged. Volume was estimated at 360m shares, up from the estimated 253.37m that changed hands on Tuesday. The capital weighled Nikkei 300 added 1.44 at 272.56. In Loodon the ISE/Nikkei 50 was 1.03 firmer at 1,239.10

Sentiment was supported by the overnight rise of the dollar to above the Y101 level in New York. But early profit-taking after Tuesday's strong move capped upward movement in the morning.

at Y5,090 and Kyocera moved ahead Y40 to Y8,440.

day's winners, continued their advance. Nippon Steel, which announced plans to buy Companhia Vale do Rio Doce, the world's largest iron exporter, once it is privatised by the Brazilian government, rose to the top of the day's most active list, advancing Y4 to Y351 in the process.

Shipbuilders also huilt on the previous day's gains. Mit-subishi Heavy Industries climbed Y6 to Y784, Hitachi Zosen Y10 to Y509, Kawasaki Heavy industries Y6 to Y426 and Ishikawajima Harima

#### took a more optimistic lead HONG KONG, in contrast, Heavy Industries Y10 to Y430. NTT, under ongoing pressure

tinued to rise, adding Y9,000 at V88 900. in Osaka the OSE average moved up 175.52 to 19,614,75 in volume of 31.6m shares. Roundup

Reports that inflation had soared to 11.8 per cent in September, the highest rate for three years, prompted a broad sell-off in MANILA, which saw several issues breaking major support levels.

The composite index was down 48.35 or 1.9 per cent at 2.569.33, but had recovered modestly from a low of 2,547.63 seen early in the session.

jumped 1.4 per cent to e 13-month high, spurred by a perception of improved Sino-British relations after Tuesday's ministerial talks in London, the overnight slide in US long bond yields and the

strong US dollar. The Hang Seng index rose 134.49 to 9,939.95, with some good corporate results and expectations of interest rate cnts also belping the mood. Turnover swelled to a heavy HK\$5.6hn. Property sbares were the biggest gainers, with the sub-index up 22 per cent.

BANGKOK was sharply higher in moderate trade, led by strong buying of relatively cheap bank and finance issues as the recent gloomy market

from rallies in Hong Kong and other regional bourses. The SET index closed 16.62 or 1.3 per cent ahead at a two-

week high of 1,312.94. KUALA LUMPUR saw a technical bounce after two days of losses, but volume shrank further as foreign investors continued to ignore the market. A late surge in some core stocks belged to push the composite index up 11.08 to finish at the day's best

Dealers said that foreign funds, kept ont by worries about the economy, ware unlikely to return before the budget announcement on Octo-

SEOUL pushed higher on

institutional support of primary hlue chips, and the com-posite stock index gained 7.10 at 982.89. Kepco was actively traded, rising Won700 to Won29,600, with today's pricing of a \$300m ADR issue attract-

ing investors' interest. SYDNEY bemoaned the negative sentiment in US equity markets, resulting local investor caution, and a lack of interest from Asian investors as the All Ordinaries index ended

28.60 lower at 2,103.40. A rising Australian dollar and falling base metal prices were also blamed for the setback. BHP was the most active share, falling 20 cents to A\$17.98; Western Mining dropped 23 cents or 2.6 per cent

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177.09 165.5e 161.47 136.83 135.92 261.82 237.33 161.75 146.96 370.22 135.56 451.72 965.70 239.76 70.85 216.59 345.57 328.20 138.67 138.67 138.67 138.67 202.22 153.23 120.91 113.05 123.90 84.78 62.80 178.78 182.05 110.44 101.72 243.76 159.16 47.94 92.56 308.43 662.52 183.70 50.42 148.25 235.95 244.08 84.89 201.85 138.07 104.82 144.37 152.68 188.08 179.15 194.48 149.32 143.97 260.94 263.08 171.61 156.89 377.82 248.47 75.52 143.18 484.99 1052.45 257.44 78.57 236.21 150.28 316.24 216.22 162.06 226.07 238.18 175,68 167,35 181,98 139,49 134,49 262,45 245,77 160,50 232,12 70,55 131,76 240,50 73,34 240,50 327,38 140,39 297,29 202,18 202,18 202,18 202,18 202,18 108.44 139.50
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0.5

192.39

The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Actueries and the Faculty of Actueries, NatiWest Securities Ltd. was a co-founder of the Indices.

139.80 179.73 122.33 143.02 160.37

US Dollar Index

**NEWS: INTERNATIONAL** 

# IMF says world resilient to market turmoil Tokyo urged to

However, relatively optimistic global outlook carries a financial health warning, writes Robert Chote



kets, the International Monetary Fund said yesterday. Although the Fund has become more pessimistic about the outlook for the industrialised economies, it bas upgraded growth forecasts for many developing countries and some of those making the transition from communism

The world economy is expecfed to grow by 3.7 per cent this year and 4.1 per cent in 1996. These growth rates are a little above the average recorded since the 1970s and would take the value of global output to more than \$30,000bn at market exchange rates for the first time next year.

Developing countries are forecast to enjoy economic growth of 6 per cent or more this year and next, ontstripping the less than 3 per cent expansion of the industrialised economies as they have done for the last 25 years. Developing nations produce about 40 per cent of world output, compared with the 55 per cent accounted for hy industrial countries and the 5 per cent produced by those in transition. On present trends the developing countries should overtake the industrialised ones in less than a decade.

Developing countries have benefited from greater openness and integration with the rest of the world economy and - unusually - growth in the developing world has been relatively unaffected by the most recent slowdown in the industrial-world. Greater efficiency in agriculture has allowed developing countries to broaden their export base by expanding manufacturing,

while they have also diversified their export markets.

In the wake of Mexico'e financial crisis, capital inflows to developing countries have weakened from the record levels recorded in the first half of the decade. Net inflowe are predicted to run at a little under \$120bn this year and next, down from an average of nearly \$150bn a year over the previous four years but well up on the \$30bn a year recorded in the second half of the 1980s. The Fund calculates that if policy failures in the industrial countries reverse capital flows next year by raising long-term

industrialised countries threat- market confidence and continened to provoke renewed turbulence in financial markets. Many developing countries risked overheating because of rapid growth or because of the difficulties of managing capital inflows. Transition economies might suffer sethacks to their stabilisation efforts in part because of the fragility of their financial systems.

Among the industrial countries, Japan is mired in one of its worst economic slowdowns since the second world war and needs to do more to kickstart recovery. But the IMF warned policymakers in North America and Europe that they should not overreact to signs

#### Policy weaknesses in industrialised countries threaten to cause renewed turbulence in financial markets

per cent lower than it would otherwise be by the end of the

interest rates output in the

developing world could be 4

an engine of global growth, having expanded at almost twice the pace of world output over the last 35 years. World trade in goods and services is predicted to decelerate a little this year and next, but still to grow by 6.5 per cent in 1996.

Japan is expected to con-tinne losing its share of world markets, with its export volumes likely to have gone up by only 6 per cent between 1991 and 1996 compared with a 34 per cent rise in world trade over the same period. After seeing its market share drop by a fifth since the 1970s, the UK is expected to gain share

both this year and next. The Fund warned that its relatively optimistic forecast was clouded by risks in both the short and medium term. Policy weaknesses in the

of weaker growth on their own home ground, especially as their continued high levels of government borrowing pro-

vided little room for manoeu-

vre on interest rates. Slower growth should be welcomed in the US - and in countries such as the UK and Australia whose cycles are closely synchronised with it as it alleviates inflationary pressure. The slowdown in continental Europe at first glance appeared more worrying because recovery there only got under way in 1993. But lower long-term interest rates and calmer financial markets are expected to allow growth there to continue at a little above its long-term trend

"The storm that broke with the financial crisis in Mexico has been weathered well by most emerging market econothe IMF argued. It mies. added that the maintenance of

World economic prospects ued solid economic perfor-

weloping and industrial countries mance in most countries was testament to the progress made Output growth, % in promoting financial stability

and market-oriented structural

The Fund predicted that

in Latin America as a whole

growth will be much lower this

year than last, helping to

reduce inflation. But growth

should pick up again to 4 per

among developing countries is

greatest in Asia, where the

npward revisions to growth

the fourth year running.

year to 5.2 per cent in 1996. But

significantly higher growth will be needed to improve liv-

ing standards with many coun-

tries in the region still suffer-

ing from falling or stagnant

per capita incomes, widespread poverty and unsustainable lev-

els of debt. In much of sub-Sa-

haran Africa debt burdens

exceed four times export earn-

have any realistic hope of ser-

vicing debt burdens of such a

Economic performance in

the transition economies varies

from country to country,

depending largely on bow far

down the road to economic sta-

magnitude," the Fund said.

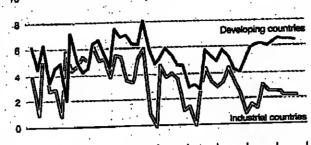
Few countries appear to

The risk of overheating

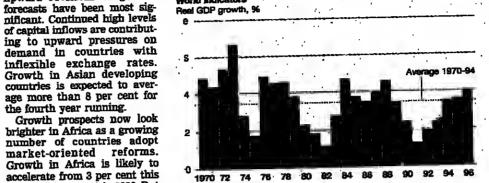
Mexico's economy should soon

begin to recover.

cent in 1996.



Real GDP growth, %



bilisation and restructuring they have travelled. The more advanced countries - such as Poland, Hungary and the Czech Republic - are enjoying robust growth, helped by buoyant investment and trade growth. Laggards such as Russia. Belarus and Ukraine have seen output continue to decline into this year, even though

ate the scale of decline. The Fund noted that the fragility of financial systems was an important weakness in many transition economies. The accumulation of bad loans

official statistics may exagger-

has continued during the early years of the transition, even among recently formed institutions. The problem of loans to ailing enterprises had to be tackled, while there was a need for tougher prudential supervision, better assassment of credit risk, more stringent capital requirements and greater access for foreign banks.

The Fund said that the transition economies needed a comprehensive strategy for the reform of their financial systems - what was good enough for Japan was good enough for them.

# provide fresh spur to growth

By Robert Chote, Economics Editor, in Washington

The Japanese government's Y14.000bp (\$138bn) atimulus package last month has significantly improved prospects for recovery hut more needs to be done to reinvigorate the economy, the International Monetary Fund said yesterday.

The package, unveiled on September 20, is forecast to widen Japan'e structural budget deficit - excluding social security - from 5.5 per cent of national income this year to 6.3 per cent in 1996.

Without the package the deficit would have narrowed from

49 to 47 per cent. The Fund said the measures would prohably mean that growth would be higher than its central forecast of 2.2 per cent next year, with a 3 to 4 per cent expansion feasible. But it said that the government would have to start reining in its borrowing as soon as the upturn was safely

IMF economists warned that Japan's output was likely to remain 6 per cant below its potential level next year even if growth accelerated, Unemployment, already at a record high, was likely to rise further in the absence of a strong

The persistent weakness of activity is due to the combined effects of sluggish domestic demand, which is affected by balance sheet difficulties that arose after the bursting of the asset price hubble, the overhang of excess capital stocks and the strength of the

exchange rate," the Fund

Mr Michael Mussa, the IMF's economic counsellor, said the recovery projected for next year was much weaker than would normally be expected in a country where output was so far below potential.

He said growth would be restrained as Japan's larger banks rebuilt their balance sheets by widening the spreads between the interest rates charged to lenders and offered to depositors.

Recent cuts in official interest rates had been useful, but "given the overall tepid aconomic environment, it is important for the authorities to keep the supply of liquidity ample," the Fund said.

The recent managed closure of some financial institutions was an important step toward the resolution of the bad loan problem, but other institutions might need restructuring, Mr Mussa said.

The government should facilitate loan write-offs, encourage the use of loan securitisation, make more flexible use of deposit insurance funds and address the problems of hous-

ing loan companies. Mr Mussa said there were more small financial institutions whose losses should be recognised and which should be closed or merged. Public money would be needed to tackle the problem. Japan also needed to tackle the over-regulation of its economy, which was slowing the pace of adjustment and concentrating the pain of change in sectors fac-ing international competition.



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# Comoros coup ends as French troops swoop

and Agencies

The coup in the Comoro islands in the Indian Ocean ended yesterday when mercenary Bob Denard handed over his hostage, President Said Mohamed Djohar, after a military intervention by French

After hundreds of French paratroopers, marines and infantry had fanned across the main island of Grand Comore following yesterday's pre-dawn aerial and naval assault, Mr Denard, a 66-year-old French adventurer, prepared to negotiate his surrender.

Last night the French Defence Ministry, which had earlier announced that Mr Denard had already surrendered, retracted the statement and said he was still holed up in the Kandani barracks in Moroni, the islands' capital, surrounded by French troops.

"We are waiting for him to take his decision and we hope that will be done quickly," an official eaid. Mr Djohar had been handed over unharmed to the French embassy.

French officials said four or five Comorans had died during the military intervention and that ahout 10 people were injured.

in Paris, the French foreign ministry said Mr Caabi Elyachroutu Mohamed, the Comoros prime minister, who had



sheltered in the French embassy since the beginning of the attempted coup, would now head a broad-hased national unity government. The prime minister was reported as having granted an amnesty for Comoran rebels who had fought alongside Mr Denard.

The unpopular President Djohar, who had throughout the crisis been held by Mr Denard as a potential negotiating card, was expected to be offered asylum in France.

France, which called troops from its bases on the islands of Mayotte and Reunion and in Djibouti, had initially appeared to turn a deaf ear to pleas by Comoros politicians for it to honoor a 1978 security agreement with the islands, scene of some 17 coups since independence. Last week Mr Alain Juppe, the

vention However, officials in Paris said yesterday that President Jacques Chirac, anxious not to give the impression to friendly African countries that France still gave its tscit backing to Mr Denard's African escapades, had given orders for an operation 24 hours after the raid six days ago by Mr Denard and two dozen fellow merce-

naries. The collapse earlier this week of a political coalition set up by coup leader Captain Ayombo Combo to lead the Comoros to elections, and growing signs of hostility among the islanders toward the mercenaries, must also have encouraged Paris to give

was "no question" of an inter-

the final order. Mr Denard's prospects now look bleak.

In 1989, following the death of previous Comoros President Ahmed Abdallah, he was allowed to fly out to exile in South Africa under the watchful eye of French troops. This time South Africa has refused to take him in and France has promised to put him on trial if he was caught

Quizzed about his future on French television yesterday, Mr Denard's reply was characteristically blunt: "I think it would be Le Sante," he said, referring to one of France's

# ompanies warn of slide into recession

Business conditions are now gloomier than st any time in the past two years, companies in the West Midlands warned yesterday. Many manufactur ers in this important industrial region expect to cut working hours towards the end of the year amid faltering exports. ruction markets and for cuts In Interest rates.

The warning reflects a sharp change in mood in the West Midlands, which is likely to fuel concern about the state of the economy. The region was among the first to signal recov-

ery three years ago. Recent official figures, which were collected two to three months ago, bave suggested that manufacturing output and export growth have alowed. Treasury officials and most

fall will be reversed later this year, as overseas demand picks up and consumer spending rises. However, business leaders at the West Midlands Confederation of British Industry council yesterday argued that the UK could drift back Into recession unless there was a change in government policy. They called for moves to stimulate the housing and con-

Mr Jeremy Woolridge, chairman of the regional council, said: "This is a temporary slowdown which could he turned round if some proactive government action is taken. If they just sit and watch lt, we might find ourselves back in

Meeting in Birmingham yesterday the 45 members of the regional council drew attention to the high level of stocks held hy companies and predicted that these would lead to short-time working.

The automotive sector was suffering particular problems, they added. Figures published earlier this week showed a sbarp fall in national car exports during the summer and Ford recently announced plans to reduce production at its Halewood plant in north-west England

Other manufacturers also predicted change: "It's a hit quieter since July; it's a bit tougher to get the orders and inquiries are not so huoyant," said Mr Howard Marshall, managing director of Ash & Lacy, the Birmingham metals processor. He acknowledged that stocks could be too high after a huild-up in the first four months of the year.

Mr David Groves, chairman

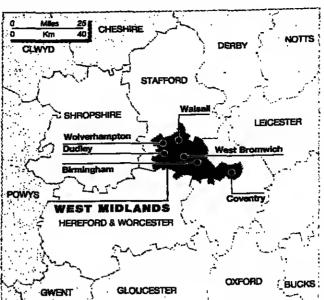
of Grove Industries, a Strat-

neering group, reported that tional areas where there are cutbacks in the manufacturing schedules," mentioning the automotive sector, waste and office flooring.

ford-npon-Avon private engi

These comments mark a sharp change of sentiment since last month when the local CBI canvassed local members and found that order books were healthy and that. although some companies were not working at full capacity, the reduction was insignifi-

The CBI In London is due to publish its next quarterly sur-vey of manufacturing across the country later this month. Meanwhile the Treasury insisted that the "fundamentals in the economy remained healthy - we are looking at



# IMF warns against 'backsliding' with tax cuts

By Robert Chote, Economics Editor, in Washington

The International Monetary Fund yesterday warned Mr Kenneth Clarke, the UK chancellor of the exchequer, not to cut taxes in November's national Budget unless the impact on government borrowing was offset by

reductions in public spending plans. In its latest World Economic Outlook the Fund said it was important for the UK to "avoid slippages in fis-cal consolidation efforts", noting that public debate about tax cuts had highlighted the risk of "backsliding". Mr Michael Mussa, the IMF's economic counsellor, said that government revennes were rising more slowly than expected because economic growth

The IMF also warned that the gov-

The debate about possible windfall taxes in November's Budget was stirred np again yesterday after a former government adviser said it was still possible the Treasury might adopt the idea. Mr Bill Robinson, once an economic adviser to Mr Norman Lamont, the former chancellor, told a Confederation of British Industry conference that it seemed a windfall tax on the utilities

ernment had not yet done enough to establish the credibility of its antiinflation policy. Mr Mussa said it was important to consolidate the recovery through a period of more moderate growth and that "the evidence seems to be that the economy remains a bit weak". He added that it was too soon to be sure whether interest was still heing considered by ministers in the run-up to the Budget. The comments from Mr Rohinson, who is now director of London Economics, the consultancy, reflect growing speculation in Whitehall that Treasury officials have been attracted to the idea of using such a tax to raise revenue, in a manner similar to proposals made by the Labour party.

rates would need to rise sgain. The Fund expects the UK economy to grow hy 2.7 per cent this year compared with the 3.2 per cent it pre-dicted in its last published forecast in April, Growth is then expected to accelerate to 2.9 per cent in 1996, a slightly more optimistic prediction than in both the Fund's April forecast

mer forecast.

The IMF believes that there is still slack in the UK economy and that output will be about 1 per cent below its potential level next year. This "output gap" should be eliminated by the end of the decade, by which time government horrowing will have dropped only to 0.6 per cent of national Income rather than being eliminated entirely as the government has predicted in its last two budget

Unemployment is meanwhile predicted to drop gradually from 8.3 per cent of the labour force this year to 8.1 per cent in 1996. This reflects a forecast of 0.6 per cent employment growth in both years, downgraded from April's predictions of 1.4 per cent for 1995 and 0.9 per cent for 1996. The

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expected to widen from 0.3 per cent of national output last year to 0.7 per cent this year, before narrowing again to 0.4 per cent in 1996. In April the Fund predicted a current account deficit of 0.2 per cent of national income in both 1995 and 1996

The outlook for inflation is also slightly more threatening than it sppeared in April. The Fund is now predicting that the government's target measure of underlying retail price inflation – which excludes mortgage interest payments - will accelerate from 2.9 per cent this year to 3 per cent in 1996. In April it had predicted that the annual rate of price increases would drop next year to 2.8 per cent. The government wants underlying inflation at or below 2.5 per cent from the spring of 1997.

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#### Jury told of 'advance fee' fraud

A Staffordshire businessman was the victim of a Europe-wide "advance fee" frand carried out by a dishonest solici-tor and two associates, a Lon-don jury was told yesterday.

Mr Reginald Bennett of the aluminium company W.V. Bennett, was persuaded by lawyer Mr Charles Deacon to pay him £750,000, (\$1.16m) the jury heard. He was told he would receive £850,000 in return but the money never appeared, said the prosecn-

Mr Deacon had told Mr Bennett his money would be used to release oil money in Switzerland, said the prosecution. "Mr Bennett believed Mr Deacon. Perhaps it was that he simply could not resist such an easy way of making money. That he believed him was a sort of compliment to Deacon's powers of persuasion."

It is alleged that Mr Deacon and his two associates defrauded victims out of £12m by persuading them to pay over fees in exchange for the promise of future loans which never arrived.

To persuade victims to part with their money, Mr Deacon claimed high-level contacts with former US president Mr George Bush and others, the court has heard.

Mr Deacon, of Newcastle-nnder-Lyme and Mr James Fuller, a former salesman of Kidsgrove, Stoke-on-Trent, have variously denied 11 charges of deception, conspiracy to defraud and theft between June 1990 and July

The third alleged fraudster, Mr John Savage, who has since died, was the subject of an investigation by the US Federal Bureau of Investigafion, the court heard.

UK NEWS DIGEST

# Top US official starts talks with Ireland parties

Ms Nancy Soderberg, staff director of the White House National Security Council, met leading Northern Ireland poli-ticians in Belfast yesterday at the start of a week-long visit to Ireland. She was accompanied by Admiral William Crowe, US ambassador to Britain.

US officials described her talks, which will move to the Republic of Ireland before she returns to Washington, as a fact-finding exercise. Here first meeting yesterday was with Mr David Trimble, leader of the pro-British Ulster Unionists, the largest party in Northern Ireland, in a bid to break the impasse over the Northern Ireland peace process.

The Ulster Unionist Party's new leader David Trimble was

among the first due to meet with who was accompanied by the US Ambassador to Britain, Admiral William Crowe. Admiral Crowe was asked after the meeting if he thought it was President Bill Clinton's role to put pressure on the nationalist Sinn Fein party and on the Irish Republican Army. "No. 1 do not," he replied. "Most of the world wants the President of the United States to put pressure on somebody or other. This is your negotiation, not ours."

US officials said Ms Soderberg would not offer any specific proposal. But her visit, coming ahead of the planned presidential visit to Belfast, Dublin and London at the end of November, will be seen as evidence of US concern to restore momentum to the stalled 13-month-old peace process.

Mr Trimble told reporters after meeting her that the IRA would still need to take its weapons out of commission before Sinn Fein could be admitted to all-party talks on the future of John Murray Brown, Dublin Northern Ireland.

#### Mutuality benefit stressed

Savers and borrowers with Yorkshire Building Society should benefit next month from better interest rates as the society shifts its strategy to underline to members the benefit of being part of a mutually-owned organisation. Building societies are mutually owned savings and loans institutions which face

increasing competition from banks, The move, which will cost £20m (\$31m) next year, will put pressure on other societies which have said they want to pass on to customers the benefits of mutuality. Most of the large societies have announced or are likely to announce moves to become public limited companies which should give their members bonuses of a few hundred pounds each. Societies which want to avoid this course have felt increasingly defensive about how to make customers see the benefit of remaining mutual. Yorkshire's scheme will reinforce its own position as a society determined not to be taken over, but not all of those which wish to remain independent and mutual will have the capital strength to make a substantial offer. Just over half the cost of Yorkshire's scheme will go in cutting the standard mortgage rate to 7.85 per cent - just 0.12 percentage points above the rate currently offered by Cheltenham & Gloucester, the mortgage lending arm of Lloyds Bank.

Alison Smith, Financial Staff

#### Drugs seized near Heathrow

Police found 2m capsules of the sleeping drug Temazepam in a truck near London's Heathrow airport. A raid on a small industrial estate where the truck was found was part of a much wider undercover operation. Four men were arrested after tha find in the truck. Two were released without charge and the remaining two are expected to be questioned for some time as the investigation is widened. Temazepani is Britain's most prescribed sleeping drug, but has recently become popu-lar among drug addicts. They mix it with heroin and inject it.

#### Reinsurance ruling by court

Reinsurance companies, which protect conventional insurers against big losses, cannot avoid paying claims on policies on the grounds that they had not been authorised by government regulators, the Court of Appeal in London has ruled. Mr Roger Enock, partner at Freshfields, the law firm, described as "a landmark decision" the judgment in the case of Group Josi Re, the Belgium reinsurer. Group Josi, which sold insurance in the London market, had sought to avoid liability on policies sold before a change in the law in 1986.

Ralph Atkins, Insurance Correspondent

#### **Tourism heads for record**

A record total of 2.62m overseas visitors came to the UK in July, the previous highest monthly total was 2.58m in August last year. The July figures mean the total number of visitors for the first seven months of the year is 12.85m, 11 per cent up on the same period last year. They spent £6.06bn. (\$9.35hn) a 15 per cent increase over last year.

Mrs Virginia Bottomley, National Heritage Secretary, said the figures were further evidence that the UK was heading for a record year for overseas visitors. Mr Anthony Sell, chief executive of the British Tourist Authority, said the record figures were no reason to relax efforts. "We lost market share during the late 1980s and early 1990s and now need to claw Diane Summers, Marketing Correspondent that back.'

IBM awards vending deal: Compass, which in July became the world's biggest contract catering company with the FFr4.5bn purchase of Eurest International, has won a five-year contract with IBM in the US. Canteen, the group's US subsidiary, said yesterday that the contract was worth \$250m (£161m) to revenues. Canteen will provide both food and vending services to more than 100,000 IBM employees on 29 sites.

Data contract: The Ordnance Survey, the UK national map-ping agency, has signed a contract with European Geographic Technologies, a Netherlands-based subsidiary of Navigation Technologies of California, which makes databases for electronic car navigation systems. Under the agreement it will supply specialist data products.

# Workers set to win EU rights over consultation

By Robert Taylor, Employment Editor

British workers will bave the legal right to be consulted by their employers over collective redundancies and transfer of ownership in order to comply with European law under a UK government regulation to be announced today. The measure, which is expec-

ted to win parliamentary approval later this month, follows last year's judgement by the European Court of Justice in Luxembourg that the UK was not fully adhering to the EU directives cheek the right. EU directives about the rights of workers to representatioo. Union lesders believe the

government has decided to do the minimum necessary to meet the court's ruling. The

government's measure is

expected to require all UK employers to consult their workers aither through a recognised trade union or a representative body of employees in each company elected by them to be consulted on any collective redundancy transfer of the company's ownership.

Union leaders fear that the government's proposal will not require the creation of permanent workplace consultative bodies. They also believe the government will enable employers to bypass and weaken recognised unions.
They also dislike the probable provision which will limit use of the measure only to cases of redundancy and transfer of ownership that cover more than 20 employees over a 90day period.

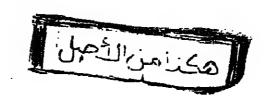
that the UK transposed the EU directive on collective redundancies into domestic law. In 1981 the UK passed legislation to implement the EU directive

on transfer of undertakings.
But the European Commission was dissatisfied with the UK's limited implementation of the two directives and took tha UK to the European Court for its adjudication.

The court ruled against the UK position arguing its domestic law to ensure employee consultation was

unsatisfactory.

The judges said Britain had to modify the lagislation. enabling all employees not just those in recognised unions to enjoy representation in collective redundancy and bransfer of undertakings.



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# Reform may aid financial advisers

By Alison Smith in London

A wide ranging review of financial services regulation which could reduce the burden on retail investment companies was announced yesterday by Mr Andrew Large, chairman of the main City regulator.

Mr Large, who beads the Securitias and Investments Board, said that since tha introduction in January of the regime requiring life assurance, pensions and investment sales agents to give more information to customers, regulators needed to see whether there was a "disclosure dividend" from which companies should benefit.

We must now consider whether there is a trade-off between better quality discloture to the customer and other egulatory constraints on retail investment firms," he said in the second annual Britannia

Caledonian lecture in Glasgow. He called for a look at the cumulative effect of the con-trols now in place to see whether they amounted "to more than is necessary in a better-trained, more transparent, better disciplined retail

His comments will be welcomed by many life assurance and investment companies which believe that regulation is too prescriptive and expensive. In particular, some have complained about the costs of meeting new training standards, and about how the disclosure regime has slowed the selling process and so affected sales volumes. However, tha detailed rules on sales prac-

tices which he suggests might be superseded by a more supervisory system of regulation were themselves put in place because the financial regulators were not satisfied with the standards companies adopted under the broader regime which was set up when the Financial Services Act 1986 was implemented.

The shift to supervisory techniques, which focus more on the organisations' structures than on devising rulebooks, was one of three areas Mr Large highlighted for inclusion in the review. The others were the scope for weeding out "mindless box-ticking"; and whether the structure of the sector should be changed.

This idea of looking again at the split between sales agents who sell the policies of just one company and those who give independent advice, and perhaps allowing some advisers to be linked to more than one company in a "multi-tie", would attract great controversy within the sector. Some life offices which sell through independent advisers believa this change could undermine their method of selling.

Mr Large said he expected regulators to seek comments from the companies and from consumer representatives over the course of next year, though he would not set a date for

implementing any changes. He acknowledged that it was difficult to alter the regulatory regime while the problem of compensating the victims of had advice to take a personal pension was so far from



**NEWS:** UK

Eric Turner, a curator at London's Victoria & Albert Museum, is pictured with a part of Charles ge's Difference Engine, an early version of a calculator, which was yesterday sold at auction for £176,750 (\$279,265). It had been expected to fetch around £50,000 at Christia's in London, but a telephone bidder acting for the Powerhouse science museum in Sydney, Australia, secured the item

# Power groups' freight plan

By Charles Batchelor. Transport Correspondent

Britisb Nnclear Fuels and National Power, the electricity generator, are to launch bulk freight services on the UK rail network within the next few weeks in the first test of the government's commitment to bringing new operators on to

Both companies have previously hired train crews and locomotives from British Rail. tha state network. For their new venture they have recruited their own drivers and bought their own locomotives and, in the case of National Power, their own wagons.

Bulk freight movements are at present handled by three regional, soon-to-be-privatised freight companies created from BR's Trainload Freight divi-

sion but the government has said it wants "open access" for new freight operators. This contrasts with the passenger rail network where open access has been postponed until 1999 to give the franchised train companies a chance to get

Attempts by new entrants to establish a foothold in tha freight market have been frustrated by difficulties in obtaining secondhand locomotives. the high cost of insurance and the complaxity proving that their safety procedures are

National Power has bought five new locomotives from General Motors of the US and 85 British-designed wagons. These will carry 8m tonnes of coal a year - a third of the company's total requirement from the Selby coalfield to the

Drax power station in North Yorkshire. The company has made a total investment of £20m and recruited 50 people to run it. Former BR drivers have been employed and National Power has established its own maintenance depot at Ferrybridge, West Yorkshire.

National Power said that running its own freight opera-tion will put it in a better position to negotiate with the former BR freight companies over its contracts with them and give it some spare capacity to sell to third parties. It plans to start running its trains once its safety case has been approved by Railtrack.

BNFL has set up a subsidiary, Direct Rail Services, to take over the management of its freight operations. The com-

# German court clears Leeson transfer hurdle

By Wolfgang Münchau in Frankfurt and John Geoper in London



A German high court tbe cleared first legal burdle for the extradition of Mr Nick Lee-

son, the futures trader wanted by Singapore on a series of frand charges in connection with the collapse of the Bar-

ings merchant bank.
The decision is only the first in a series of legal and political steps required under German law. Lawyers for Mr Leeson. who is held in a Frankfurt jail, yesterday said they would appeal to the German Constitu-

tional Court. Tha Frankfurt court ruled that 11 of the 12 charges brought by Singapore constituted admissible ground for extradition. They include three charges of forgery, two charges of frand against Baring Futures Singapore and six charges of fraud against Simex. Singapore futures

exchange.

The high court struck ont one of the four forgery charges, because the alleged offence would not have been punishable under German law. This relates to a charge that Mr Leeson forged a document, which be produced as a photocopy without pretending to present an original.

Mr Hans-Hermann Eckert, Frankfurt prosecutor, said thet Mr Leeson's "chances of not going to Singapore are now very small". He said that

from the German embassy in Singapore, the minimal legal standards are guaranteed, and

he will receive a fair trial." Mr Eckert, who was visibly elated by the verdict, said that Mr Leeson could theoretically be on his way to the airport by the end of next month. But this is thought highly unlikely, given the likelihood of further legal action.

The matter will go for a final decision to the Justice Ministry in Bonn, a process that nor-mally takes between four and six weeks. If Bonn concurs, the authorities in Frankfurt will then be able to go aheed with the extradition.

However, if a full appeal to the Constitutional Court is allowed, there could be a delay of up to a year. Mr Stephen Pollard, Mr Leeson's British lawyer, said there were clear

grounds for appeal on at least eight of the charges. Mr Pollard criticised the verdict, saying it appeared "in various respects to be inconsistent and wrong in law". Ha said that an appeal would be made to the constitutional court within the time limit of a month.

In its argument, the High Court stressed that Germany operates a legally binding extradition agreement with Singapore over crimes that are punishable by law in both countries, a standard restriction on extradition.

A key task for Mr Leeson's lawyers will be to build up pubbc support inside Germany in order to exert political influence in Bonn. Unlike in the UK, the Leeson case has attracted only little publicity

#### TV channel bidders must give costings

By Raymond Snoddy in London

Bidders for Britain's new Channel 5 television operating licencyesterday se have been given until tomorrow to confirm details of the hourly sum they intend to spend on pro-

The late request from the regulatory body the Independent Television Commission has bemused the bidders; Virgin Talevision: Channel 5 Broadcasting, which groups MAI, Pearson (owner of the Financial Times), and CLT of Luxembourg: UKTV, the consortium pnt together by CanWest of Winnipeg; and New Century, the BSkyB-

Granada consortium.

It comes more than five months after comprehensive bid application documents were first submitted and at a time when the ITC members should be starting the final stages of making their decision. The letters point out that the average cost per hour of ITV programming is £43,000 (\$67.940) and £28,000 for Channel 4. The bidders are then asked to confirm their costs

per bour. The figures range from around £11,000 an bour to more than £16,000. It is not clear whether the ITC is showing signs of concern at the rel-atively low figure for Channel 5 or whether the commission is gathering material to help rank bidders in preparation for making an award on

'exceptional quality". Bidders argue that the cost per bour depends on whether applicants are broadcasting

#### Labour party conference Hopes of renationalisation

# Majority stake in rail \*network a policy option

By Robert Shrimsley, Lobby Correspondent

Labour may taka a majority clear that this did not mean interest in a privatised Rail-full renationalisation and that track as a cheaper alternative a number of alternative meato trying to renationalise the sures would be examined if the ment-planned flotation goes

Close aides of Mr Tony Blair. the party leader, mada clear that there was no real likelihood of an incoming Labour government being prepared to spend the estimated £2bn (\$3.1bn) needed to take the Railtrack network back into public hands. Railtrack is to own the track in the state rail

network, bot not the trains. Mr Blair himself yesterday stuck rigidly to the formula used in his speech on Tuesday would be "publicly owned and publicly accountable". How-

per cent stake in Railtrack. This would be a particularly attractive plan should a float only 51 per cent of the shares, retaining 49 per cent, an option expected by a number of observers. If that were to happen Labour need buy back just 2 per cent of the total shares to take ownership of Railtrack. Party figures are reluctant to overplay this idea for fear that ministers will float the entire company to

we don't know how things will ever, ona senior aida made be when we get in, but that we may not wish to devote all tha money from our first public spending round to this one issue if there is a better way of said one party officia

Interviewed on BBC Radio, work and refused to use the word "renationalisation".

ise [the network]" Labour leaders are increasingly confi dent that the government will not meet its privatisation timetable and may fail totally to

# Spin doctors panic over OJ

By Robert Shrimsley and Raymond Snoddy

Details of Labour's attempts to manage the national news media emerged yesterday with the publication of a letter which tried to cajole the television companies into not heading their news bulletins with the OJ Simpson verdict.

The incident reflected the mounting concern of the pary's spin doctors yesterday that the trial verdict, delivered at 18h00 British time, would overspeech to the party conference. Mr Alastair Campbell, Mr

an urgent letter to Mr John Birt, the director-general of the editor of ITN.

His letter stated: "Some of your journalists hava suggested to us that we are the OJ Simpson trial vertict. It has even been suggested that there is little chance of Mr Blair's speech leading your

lt concluded: "Whilst of course news judgments must be made in the light of other is much interest in the not to lose sight of both the news value and of the impor-

The BBC did lead both its evening bulletins with Mr

tins with the Simpson verdict. attracted 6.6m and 4.5m for its two broadcasts, according to unofficial figures from ITN.



# On Friday, October 6 some of the world's most astute economic commentators DESCRIPTIONS TO

Alteration and the community IMFaileathean Nashheich

FT: World Economy & Finance Survey

Financial Times. World Business Newspaper.

#### **TECHNOLOGY**

#### Worth Watching · Vanessa Houlder



#### New clue to streptococcus

The bacterium streptococcus pneumonioc causes illnesses such as poeumonia, sepsis and meningitis. But some 40 per cent of people barbour the bacteria in the ooise and throat without suffering any symptoms.

Research carried oot by scientists at the Laboratory of Molecular Infectious Diseases at Rockefeller University and elsewhere suggests that the activity of the bacteria depeods on the inflammatory activation of the target cells. This gives the bacteria access to a cell-surface receptor, oormally used to bind the hormooe platelet-activating factor (PAF).

The elucidation of this mechanism, reported in today's Nature, is likely to prompt researchers seeking potential therapies to consider drugs that work by blocking PAF receptors.

Ruckefeller University: US, tel 312 3278276; fax 212 3278888.

#### Easier-to-use testosterone patch

Hormooe replacement using skin patches is well-established for women but relatively new for men, urites Daniel Green. That may change after regulatory approval this week in the US for SmithKline Beecham's testosterone skin patch to treat

under-activity of the testes.

Traditionally, treatment is by injection into a muscle, or by skin patch applied close to the testes. The SmithKline prodoct, called Aodroderm, can be applied on the trunk, thigh or arm.

SmithKline Beecham: US, tel 215 7517074: fox 215 7517655.

'Piezo' valves could cut car emissions

"Piezohydraulic" injection valves that operate 10 times faster than conventional valves could sharply cot emissions from car engines, according to developers.

Siemens is developing a valve made of a stack of layers of a piezoelectric material, which expands when a voltage is applied. The thrust is amplified by a hydraulic mechanism. These valves respond within 0.1 millisecond to voltage pulses coming from the central control unit, allowing precise cootrol of the injection process.

Siemens: Germany, tel 19892340; fax 19392324.

#### Early warning on traffic jams

A device that warms drivers of traffic jams using information gathered from sensors on the motorway oetwork was launched in the UK this week.

Trafficmate, which is aimed at

the mass market, uses speech technology to provide andible messages about traffic flow and delays within 10 miles of the vehicle's position. It is being launched by Trafficmaster, which collects information from a network of 2,400 infra-red sensors. The information is sent to transmitter stations, where it is coded and transmitted by radio signal to a unit on the car dashboard.

The unit and a "key" giving access to 12 months of information cost about £50; later information keys cost £24.

Trafficmaster; UK, tel (0)1908 249800; far (0)1908 200334.

#### Permeable mould protection

A lasting, environmentally friendly technique bas been developed In Sweden to combat mould in the walls and ceilings of food prodoctioo and processing industry plants.

Most surface treatment methods are made from impermeable paints which prevent surplus moisture escaping. Kefa International of Stockholm says lts BioRld method uses a permeable protective layer which allows the moisture condensing In the underlying building material to pass through. Since it kills the micro-organisms hy drying them out, it contains fewer environmentally barmful components than conventional treatments.

Kefa International: Sweden, tel 86002470; fax 86593171. Netscape and Microsoft over software for the Internet

# A David and Goliath fight

or all of his success in outwitting the likes of IBM to become the leader of the world's biggest software company, Bill Gates, chairman of Microsoft, has long said that the competition he most feared would come from a software start-up with breakthrough, innovative technol-

Netscape Communications may be such a company. Founded hy Jim Clark - who also formed Silicon Graphics, the leading 3D computer workstatioo manufacturer and Marc Andreesseo - a young programmer who helped to create the original software for the Interoet's World Wide Web - Netscape burst on to the scene about 18 months ago.

The company has grown rapidly to become the recognised leader in Internet "browser" software with an estimated 10m users. In August, Netscape also became the idol of Wall Street with its spectacular debut on the Nasdaq stock exchange.

Yet as Netscape is quickly learning, playing David to Microsoft's Goliath is a perilous role. The young software company is now struggling to maintain its credibility after an embarrassing breach of its "secure" software, and fighting it out with Microsoft in a bare knuckle public relations brawl.

Netscape got its break partly because Microsoft was slow to recognise the rising popularity of the Internet. Now, with the launch of Windows 95 behind it, the software industry leader has awakened to the opportunities of the global computer network and appears to have turned its guns oo Netscape.

Netscape would prefer to avoid a direct confrontation. "There is a tremeodous effort to polarise us against Microsoft," says Clark. "We're not in the business of going after their desktop software husiness. We are, in fact, going after a new market."

tional however, one of the most lucrative prospects for the software industry.

The prize in this looming hattle is leadership in the emerging market for software that enables secure

electronic commerce and business communications via the Internet. With an estimated 50m computer users oow booked up to the global network, billions of dollars of International trade may be at stake.

Netscape and Microsoft have both in recent weeks launched competing and incompatible technologies designed to ensure the security of credit card payments made over the internet, an essential tool if electronic commerce is to grow.

A war over technology standards, which could delay the progress of electronic commerce and potentially impede Netscape's growth, now seems inevitable.

Just three mooths ago, Visa International and MasterCard International, the two leading credit card paymeot processing groups, vowed to work together to create a standard method for secure bank card Internet transactions.

Last week, bowever, wheo Visa and Microsoft unveiled their oew Internet security technology,

A war over standards, which could delay the progress of electronic commerce, and may impede Netscape's growth, now seems inevitable

MasterCard was noticeably absent. So too was Netscape, which has been working with MasterCard on software for secure payments.

Netscape and MasterCard complain that Microsoft and Visa have broken ranks by backing a "proprietary" approach to creating security software. Although Microsoft says It will

publish the specifications for its new Secure Transaction Technology (STT), Netscape charges that by withholding the source code (the original computer program) for STT, Microsoft is aftempting to establish its control over technology that will be critical in the era of electronic commerce.

Netscape is making the source code for its competing Secure Courier software for credit card payments available to all comers at no charge. Software application developers will therefore be able to incorporate the technology in their programs.

"This is the way that standards

are created on the Internet," says Mike Homer, Netscape marketing director. Microsoft, he claims, will charge third-party software developers licence fees if they want to incorporate STT in their programs. Moreover, Microsoft aims to extract a "transaction fee" every time the software is used to buy or sell goods and services on the Internet, according to Netscape.

"As a result of keeping it proprietary, Microsoft will be able to get a fraction of each transaction that occurs," says Clark, "If that's what the world wants, then they'll start paying Microsoft. It's a simple choice. Ours is an open specification, the SIT is not.

"We think most people do not want to be locked into a proprietary software that charges a fee each time you make a transaction. There are more financial institutions in the world than Visa. Ask Barclaycard, for example, if they want to pay a fee to Microsoft for each transaction.

For its part, Microsoft says that it has not yet worked out the "business model" for STT, although it has no plans to freely distribute the source code.

MasterCard says that it, too, is disappointed that Microsoft and VIsa have adopted a proprietary approach. "Establishing one standard for card purchases on the Internet is absolutely the right thing to do for consumers, merchants and financial institutions worldwide," according to H. Eugene Lockhart, chief executive of Master-Card.

Unless a compromise is found.

there will be two incompatible credit card security systems on the Internet. This would force merchants and banks to choose sides, or support both at added expense. In an attempt to avert a face-off, Netscape and MasterCard are seek-



Jim Clark at this week's launch of Netscape's latest generation of security software

ing the support of other interested parties. This week, for example, they won endorsements from IBM, GTE, the communications group, and CyberCasb, a pioneer of Inter-

net casb payments.

Netscape's hand bas been weakened, however, by recent incidents
in which the security features of its
browser software - less stringent
than those used in its Secure Courier payments system - have been

A flaw in Netscape's hrowser security was discovered by two "cyberpunks" - computer science studeots from the University of California at Berkeley - that might enable Internet eavesdroppers to read private messages.

Although there is no evidence to suggest that any users of Netscape software suffered losses and the company has already fixed the security problem, the incident was a setback, Clark acknowledges.

"It was a very foolish oversight," he says. "I don't want to diminish it. It was our responsibility to do a better job and we now have measures in place to do that. It was the result of a young company, growing very fast.

"But we did bring security to the Internet In a way no one else did," says Clark, in defence of Netscape. "Every system we've shipped in Navigator has had embedded security. Prior to that no one had."

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Having learned its lesson, Netscape has put in place new audit systems to check security software more rigorously. In future, the company will ask the Internet cognoscenti – the very people who discovered the Navigator security flaws – to test its software before it is widely distributed.

Microsoft is making the most of Netscape's mistakes as it promotes its own approach to Internet security. It is safe to predict, however, that the cyberpunks will do their very best to crack any security product that the Industry leader may offer.

As the marketing battle unfolds, Microsoft must also be wary of the close scrutiny of the US Justice Department, which is continuing its antitrust Investigation of the com-

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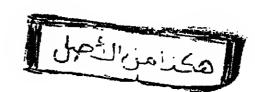
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and And Freedom is a pic-ture of the Spanish civil war directed with shrapnelflying immediacy by Ken Loach. It makes us realise how many war movies are cushioned by hindsight or protected by moralising. Often we have to choose between higher Hollywood silliness and a grand but portentous Euro-fatalism in the style of La Grande Illusion.

In Loach's film, written by longtime collaborator Jim Allen, we have a callow Liverpudlian volunteer for hero (Ian Hart) and a confused war-withinwar for subject and setting. Stirred by a Spanish Republican's speech at a meeting in his home town. Hart goes to Spain to join a militia attached to the revolutionary socialist party POUM Instead of a bold glow of antifascist unity he finds an ill-funded, ill-knit army advertising its disarray. Rifles blow up in soldiers' faces, a comrade dies in battle asking for a spare bullet; and when not fighting Franco, the militia's half-dozen different nationalities stand in village halls yelling their dissenting views and ide-ologies.

These scenes are the film's collective tour de force. They show why an army quilted from irreconcilable geopolitical tempers came apart at the seams. The American wants to woo potential capitalist allies by muting the communist credo; the Franchman grandstands about bureaucracy; our English hero lobs in earnest, goofy pragmatism. Finally – the movie's tragic punchline – the whole delicate alliance of small anti-Franco forces will be crushed by hard-line Stalinism, as the Soviet Union extends its covert sphere of infinence to tha

This could have been an Open University lecture masquerading as a movia. But Land And Freedom never trades in hindsight pontification. It is a crackling gunpowder trail of "Nows" leading to a final, explosive "Then": a dénouement we sense coming, but never know when or how.

As in any prolonged human crisis, absurdity is mixed in with apocalypse. In one scene opposing Anarchists and Communists, exchanging rooftop gunfire and taunts, keep stumbling across a common foreign language. "I'm from Manchester." says a voice from the opposite parapet. "F-ing hell, I'm from Liverpool," Hart shouts back. Meanwhile an old woman clutching groceries in the middle of the street yells, "You should be killing fascists, not one another!"

Even the romance between our hero and a Spanish compañera (Rosana Pastor) develops in a free zone outside sentimentality. The couple's quarrels are joined symbiotically to the larger quarrel between ideologies; and we believe in the polar attraction between Hart's jumpy, gawping, rab-bit-eared innocent and the girl's warweary wisdom, her stoicism bordering

on anomie. The film's framing device is the only disposable section. David's granddaughter discovers his diary after his death, cueing the main story as a giant flashback. Is there a message for our times here - that fascism is alive and well and living in modern Britain? Or did Loach and Allen not have the faith they should have had

he Rambert Dance Company

is embarked upon its autumn

tour, in its second year under

the direction of Christopher

Bruce, the troupe continues to look in

gleaming, exultant shape, and its pro-

gramming remains imaginatively

eclectic. Though I am - to put it

mildly - no admirer of the "school of

Kylian" dances that Bruce has

acquired, his own work has a rare

integrity and speaks of an idealist

whose brave intentions lead to power-

ful creativity. Bruce also has an eye

for new talent: Mark Baldwin, Per

Jonsson and Matthew Hawkins are

again represented, and there is a wel-

come recognition of the importance of

Robert Cohan with the revival of Sta-

bat Mater. This received its first com-

pany performance on Tuesday at High

Cohan made Stabat Mater in 1975,

using Vivaldi's setting of the text.

Eight women serve as mirror and

Wycombe'a splendid Swan Theatre.

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Ian Hart and Rosana Pastor in 'Land and Freedom', Ken Loach's crackling gunpowder trail of a film about the Spanish civil war

Cinema/Nigel Andrews

# A war between ideologies

reverberant that it needed, literally, no introduction.

The first two consonants in the name "Pocahontas" serve grim warning. Disney's new animation feature is so PC that we wonder if it comes from the same national film industry that used to treat Indians - sorry, native Americans - as folk who talked funny, scalped you and were best left borizontal on the ground.

For John Wayne or John Ford, now read John Smith. Voiced by Mel Gibson, this blond-haired, strong-jawed. true-life colonist sails across the painted ocean, circa 1607, to imbibe the peace-and-love message from a bead-wearing, pipe-smoking race so progressive that they already dress and behave like 1970s hippies.

In gorgeous landscapes - the camera flies bird-free over silvered rivers and soaring forests - our hero woos the chief's beautiful eponymous daughter. He also pets her friends. a raccoon and a hummingbird, and talks to the ancestral willow-tree god-dess. And he tries to stop his chief, the wicked, gold-seeking Governor

thews. Their dances are restrained vet

eloquent, admirable in spacing and

imagery. What strikes most clearly in

this piece is Cohan's bold use of the

Martha Graham style in which he was

reared. We see dance worthy of the Earth Mother herself in its density of

physical and emotional texture in its

The 20 years that separate Cohan's

work from Matthew Hawkins' Danc-

ing Attendance on the Cultural Chasm

could be 20 decades, so different they

are - albeit the chance for Hawkins'

creativity is directly owed to the great

years when Cohan and Robin Howard

made "modern dance" vitally British.

Hawkins is a cross-over artist, edu-

cated in ballet and plainly an advo-

communicative nower.

LAND AND FREEDOM Ken Loach

**POCAHONTAS** Mike Gabriel and Eric Goldberg

> ASSASSINS Richard Donner

MY FAMILY Gregory Nava

and raping the land. Will the Indians - sorry, the indigenous Virginians - attack the colonists after one of their tribe is slain in an accidental fracas? Or will John and Pocahontas broker harmony amid the beauteous songs

The film has overlong love scenes, iffy animal acts, and in the simpering comic twosome of Radcliffe and the cabin boy Wiggins a nasty dash of homophobia. But the landscapes in a historical story so potent and Radcliffe (Ssss), cutting up the forests and sunsets: all those forests painted live-action Road Runner cartoon, with Francis Ford Coppola.

Rambert Dance's original talent

worked with Michael Clark and with

Merce Cunningham, and has a taste

for teases, obliquities, and with a cer-

tain delight in effrontery. Despite a

mad title and costive programme

Dancing Attendance is visually

splendid, physically alert, original.

The cast are dressed as insects who

have known Lacroix couture, with a

trio of Moon-maidens in drapery and

glittering crescent head-dresses. The

score is extracted from Rameau's

opera-ballet Les Indes galantes, one of

the masterpieces of barrooue theatre.

(Like the Vivaldi, it is admirably

played by the London Musici under

Mark Stephenson.) Design is by Pearl,

a chap who gives no other name; but

note, Hawkins is a choreographer.

like living, breathing Japanese water colours; all those river-viewing crags that characters go to stand on whenever the screenplay runs out of dia-logua and is reduced to the mandate. "Look noble, mythic and timeless".

Assassins continues the strange story of Sylvester Stallone. As one action flop succeeds another in the ex-Rambo's filmography - The Specialist, Judge Dredd, now this - his salary climbs ever higher and higher. He now stands oo the topmost Hollywood crag in history, commanding \$20m per picture.

I blame the parents. A childhood injury gave Sly the semi-paralysed lip that causes that intriguingly impassive face and croaking bass lisp. And having a hairdressing father who christened you "Sylvester" must pro-pel you into a life of near-demented compensatory machismo.

We have a sneaking fondness for this actor even when we hate his movies. Assassins is about two rival hit-men, one old, one young (Antonio Banderas), who chase each other all over L.A. and Puerto Rico. Directed

that does not matter because he is

witty and clever. The insect costumes

are hrilliantly done in browns, black

and white, and are sufficiently outre

to belp establish Hawkins' mood.

Lighting by Charles Balfour is no less

imaginative. We watch incidents that

intrigue, vex, excite, by their curious

muscular dramas. Androgynous fig-

pres dance and fall - Hawkins has a

recurrent and irresistible taste for a

moment when a body slumps to the

stage as if it were All Too Much - and

explore baroque ideas that the music

bas inspired. I think the piece is too

long, but Hawkins' language - a wild

yet coherent mix of classicism, Michael Clarkery, baroque gesture, Cun-

ningham manners - is constantly fas-

cinating. I would not pretend to

understand what the piece says, other

last sequence we are asked to believe that no one notices the pretty woman appearing to talk loudly to berself at a cafe table (heroine Julianne Moore speaking into a Sly-connected pinmike): let alone the maniacal fellow (Banderas) brandishing a rifle in clear view on a third-floor balcony.

Better but not perfect is My Family:

commensurate implausibility. In the

the tale of three generations of a Mexican immigrant family in L.A. Written and directed by Gregory Nava (of El Norte), it sprawls warmheartedly across 60 years while never quite seeming to leave the rehearsal room. A dozen good actors emote like crazy Edward James Olmos, Jimmy Smits, Elpidia Carillo, Esai Morales while Nava passes round the script full of knife fights, romances, jall sen-tences, family quarrels, bopes, dreams, philosophisings. In the end the film is doomed by its earnestness: by a sense that the feelings are being sincerely telegraphed rather than sincerely felt. We wish Nava bad confined himself to writing the script and left the direction of this Latino Godfo-

than that Hawkins makes dances ! want to see, that he has an original mind, and that Rambert has done excellently well to give bim this opportunity and these fine dancers. And at a time when so much dance has the visual appeal of a paper bag, Dancing Attendance is the more welcome hy reason of its stylish air.

These two pieces are part of a programme which also includes Kylian's Petite mort and Naharin's Axioma 7, works I can no longer bear to watch. As a note in passing, the Rambert programme book for this tour is admirably produced, filled with magnificeot Crickmay photographs and bandsomely laid out. Quality tells.

#### Clement Crisp

Rambert Dance will visit Sheffield. Liverpool, Plymouth, Dartford, Cardiff, Bournemouth and Blackpool during the next two months.

#### Theatre/Ian Shuttleworth

# Pinter - prince of comedy

remarkable things about seeing Harold Pinter act in his own plays is that they generally brood much less when he is around. Tha eloquent panses and significant ohliqueoesses are all in place, but Pinter understands the extent of the comedy in his work. Not that humour is that diffi-

cult to spot in The Hothouse, which be wrote in 1958 but "set aside" until 1980, and now transfers from Chichester's Minerva Studio in David Jooes's fine productioo. The shadows are all cast by the scheme of the play rather than its execution. The setting of an undefined "rest home" in which the inmates, known only by numbers, are routinely abused and electronically tortured by the staff whilst the man in charge blusters inanely and his subordinates jostle one another for the succession, offers pre-echoes of One For The Road and Mountain Language. Yet the actual script is less suggestive of Orwell or Kafka than of Orton.

As Roote, the ineffectnal, pompous "chief", Pinter sports both a moustache and a manner reminiscent of Dad's Army's Captain Mainwaring. He makes an excellent self-important, retired colonel, unable to string a sentence together at the best of times and gradually subsiding into a whisky haze while his accent becomes broader and more plebeian.

Roote's assistants, Giggs and Lusb, are played with equal finesse by John Shrapnel and Tony Haygarth. Shrapnel is a master of arid assiduity, his face a careful blank but seemingly emitting a whir of the

ne of the most turning cogs of a Machiavallian scheme. Haygarth's Lush is aly, insinuating, greased with self-satisfaction as ha riles his superior, accusing him of impregnating patient 6459 and murdering 6457.

Lush is the agent of two moments of unimaginably broad un Pinterian comedy. Having twice had whisky flung in his face for these allegations, the third time he grabs Roote's tumbler and twirls it above his head in a galumphing balletic parody - later extracting his revenge by presenting Roote with an exploding cigar. The mind boggles that Pinter aver wrote such slapstick, let alone between The Birthday Party and The Care-

As Miss Cutts, mistress of both Roote and Gibbs, Celia Imrie wears a permanent cool smirk, obviously playing her own game throughout. Chris-tien Anholt is all naive idealism as Lamb, who is ultimately sacrificed amid the electrodes of "numbar one interviewing room". Even here the gags persist, as the disembodied voices of Gibbs and Cutts hector him, "Have you always been virgo intacta?" and "What is the law of the Wolf Cuh Pack?"

The play itself lacks a little polish: introducing an entirely oew character for the final five-minute scene smells of dramatic desperation. In the end, though, its successes are much more surprising than its flaws. On this occasion, Pinter's famous "weasel under the cocktail cabinet" is wearing a red nose and clown's baggy trousers.

At the Comedy Theatre, London W1 (0171-369 1731).

#### Concert/David Murray

# Berio at 70

uciano Berio is about to celebrate his 70th birthday. Thus on Sunday the London Sympbony Orchestra invited him to conduct three of his own pieces, and one by his still-la-mented colleague Bruno Mad-

erna (1920-1973). Birthdays have become the excuses for mounting works by the High Modernist composers of the 1950s and '60s - which often need costly rebearsal time but do not guarantee full the ones who insist upon the celebrations, in the hope that the strength of the music will at last strike home to wider audiences. When Modernist music first

became an exciting ideal Boulez, Stockhausen and Luigi Nono (1924-1990) were the reigning triumvirate, with Berio and Maderna among the promising tag-alongs. It took longer for those two to make their marks; and when they did, it was less through pushing serialism still further than by their seductive, ambiguous sound-worlds.

Berio revived a late, charming exercise by Maderna on Sunday, tha Serenata per un Satellite (1969: the year explains the title). While soft trills and tremolos sustain the sense of flight in space, solo instruments dispersed around the platform emit their own little lyrical bursts, fragmented

and overlapping. The structure and even the length of the Serenata are left to the conductor to determine. There could be no safer hands than Berio's for that; what might have been a mish-mash became a shimmering idyll.

Trills and tremolos also propel Berio's own Piano Concerto II, "Ecboing Curves" (1988). Like many of his recent works, it is a recomposition and expansion of an earlier one, in this case his 1974 Points on the liant moto perpetuo study, almost a one-idea piece: Berio allows, tongue-in-check, that in many respects it "could have been written with a computer".

The newer work is lusher, often gorgeous. The hammering piano remains at the centre (played here by Andrea Lucchesini with formldable confidence and cooviction), while two flanking semi-orchestras pick up its suggestions, colouring and expanding them. There is a wealth of rich, devious harmony, and that typical Berio effect of different sound-planes arranged in apace. This sounds

# **ARTS**

#### **■ BALTIMORE**

CONCERTS Symphony Hall Tel: (410) 783 8000 Baltimore Symphony Orchestra: Richard Hayman conducts an orchestral salute to the world's greatest singers; 8.15pm; Oct 5, 8,

Wolfgang Sawallisch conducts Wagner's "Faust, Overture", \*Symphony No.2\* and "Rienzi, Overture" and Beethoven's GALLERIES

 Celebrating Calder: sculpture, jewellery, drawings and tapestries by 20th century artist Alexander Calder,

#### BERLIN

CONCERTS Konzerthaus Tel: (020) 309 21 02/

8pm; Oct 7, 8 (4pm) OPERA/BALLET

 Die Walküre: by Wagner. Conducted by Jiří Kout, and directed by Götz Friedrich; 8pm; Oct

 Madame Butterfly: by Puccini. Conductor Sebastian Lang-Lessing, production by Pier Luigi Samaritani; 7.30pm: Oct 13 Siegfried: by Wagner. Conducted by Jiří Kout and directed by Götz

Afte Oper Tel: (069) 134 0400 Barbara Hendricks and planist and Shonberg; 8pm; Oct 4

#### ■ LONDON

Royal Festival Hall Tel: (0171) 928

8800 Philhamnonia Orchestra: with pianist András Schiff. Kurt Sanderling conducts Beethoven's plano concertos two, three and tour; 7.30pm; Oct 7 GALLERIES

From Manet to Gaugin:

collections: to Oct 8 OPERA/BALLET

accompaniment to the feelings of the cate of traditional Cecchetti classicentral figure, the excellent Sara Matcism, but also someone who has

Royal Opera House Tel: (0171) 304

premiere directed by Francesca Zambello and conducted by Ivor Bolton. A modure of contemporary and Baroque music, reinterpreting Graham, Anna Maria Panzarella, Sheila Nadler and Axel Köhler, 8pm;

 The Marriage of Figaro: by Mozart. Conducted by Bernard Haitink/David Syrus and directed by Patrick Young, Soloists include Felicity Lott/Cheryl Studer, Andrea Rost/Barbara Bonney and Robin Leggate/Ryland Davies; 7pm; Oct 7,

 Tosca: by Puccini. Conducted by Simone Young and directed by Jeremy Sutcliffe. Soloists include Galina Gorchakova, Johan Bohta and Francis Egerton; 7.30pm; Oct 5, 9, 12

#### ■ NEW YORK

10, 13

"Sonata in F" and Schoenberg's "Three Pieces"; 3pm; Oct 8 Carnegie Hall Tel. (212) 247 7800

 Boston Symphony Orchestra: with planist Evgeny Kissin. Selli Ozawa conducts Tchakovsky's \*Piano Concerto No.1\* and "Symphony No.6". This performance opens the Carnegle's 105th Season; 7pm: Oct 5 José van Dam: bass baritone in

accompanied by pianist Maciej Pikulski. The programme includes Schumann, Brahms and Wolf; 8pm;

Oct 8 Maurizio Pollini: pianist plava Beethoven's "Sonatas" one to four: 3pm; Oct 8

 New Orleans to Now: with the Carnegie Hall Jazz Band, this concert gives an overview of the history of jazz from early New Orleans through the swing years of bebop; 8pm; Oct 12 GALLERIES

Guggenheim Tel: (212) 423 3500 Claes Oldenburg: an anthology of works by one of the key figures of Pop art in the 1960's. This exhibition includes a new piece entitled "Shuttlecock"; from Oct 6 to Jan 14

#### PARIS CONCERTS

Champs Elysées Tel: (1) 49 52 50

 National Orchestra of France: with planist Viktoria Postnikova. Guennadi Rojdestvenski conducts Prokofiev's "Concerto No.1". "Concerto No.4" and "Concerto No.5"; 8pm; Oct 5 National Orchestra of France: with pianist Viktoria Postnikova. Guennadi Rojdestvenski conducts

"Concerto No.3"; 8pm; Oct 7 **GALLERIES** Centre Georges Pompidou Tel: (1) 42 77 12 33

Prokoflev's "Concerto No.2" and

 Man Ray: recreation of the atmosphere of Ray's post world war two workshop where he produced various furniture. This exhibition consists of paintings, drawings and photographs from the workshop archives; from Oct 4 to Jan 29

#### Surrealistic Designs: vision and technique. About 60 masterpieces by artists such as Emst, Masson,

Musée d'Art Moderne, Ville de Paris Tel: (1) 47 23 61 27 Louise Bourgeois: sculptures and drawings from 1938-1995. Significant art works that chart her

different styles; to Oct 8 OPERA/BALLET Châtelet Tel: (1) 40 28 28 40

"The Goldberg Variations" with music by Bach; 8.30pm; Oct 4, 5 New York City Ballet: in a programme that includes the Balanchine choreographed "Cocerto Barocco" and "Walpurgisnacht Ballet" plus Tanner's "Ancient Airs and Dances" and Martin's "Fearful Symmetries"; 8.30pm; Oct 8,7 New York City Ballet: performs the Robbins characaraphed

Tel: (1) 47 42 57 50 Romeo and Juliet: music by Prokoflev, choreography by Rudolph Nureyev and directed by Ermanno Florio/Vello Pähn; 7.30pm; Oct 8, 7

#### ■ WASHINGTON

CONCERTS Kennedy Center Tel: (202) 467

4600 National Symphony Orchestra: with planist Horacio Gutiérrez. Raymond Leppard conducts Brahms' "Tragic Overture" and "Piano Concerto No.1" and

Schubert's "Symphony No.4"; 7.30pm; Oct 12, 13 GALLERIES

National Gallery Tel: (202) 737 4215 A Great Heritage: Renaissance and Baroque drawings from Chatsworth consisting of 105 works by artists such as Rembrandt, van

THEATRE Arena Stage Tel: (202) 488 3300 Holiday Heart by Cheryl L. West. A play about hope and redefining

the family; to Nov 19 Kennedy Center Tel: (202) 467 4600 Helio Dolly: by Jerry Herman.

Channing; to Oct 8 Studio Theater Tel: (202) 332 3300 Slavs!: Thinking About the Long. Standing Problems of Virtue and Happiness. By Tony Kushner and directed by Dan DeRaey. A surrealistic montage of post-Soviet culture; 8pm; to Oct 8

 Watbanaland: by Doug Wright, directed by Lee Mikeska-Gardner. Surreal drama of life and longing in an overpowering society; 8pm; to

Oct 8

#### ZURICH

 Bruce Nauman: a comprehensive collection of works by the American artist known for his multimedia audiovisual installations and sculptures; to Oct 8

like a work which will not go

away.

Tha two works that began the concert are more "occasional", a jokey cartoon after Boccherini and Berio's discreet, languid "restoration" of Schubert's unfinished 10th Symphony. I wanted more of Berio Berio.



The Philadelphia Orchestra:

"Symphony No.4"; 7.30pm; Oct 11 Baltimore Museum Tel: (410) 396

# from Oct 4 to Jan 7

 Berlin Symphony Orchestra: with oboist Martin Gabriel. Yoël Levi conducts Greig, Mozart and Bartók;

Deutsche Oper Tel: (030) 34384-01 Das Rheingold: by Wagner.
 Conducted by Jiří Kout and directed by Götz Freidrich. This is the first part of the complete "Ring Cycle" to be performed in October; 7.30pm;

#### Friedrich; 5.30pm; Oct 12 **■ FRANKFURT**

CONCERTS Recital Evening: with soprano Staffan Scheja. The programme includes Schubert, Wolf, Poulenc

## CONCERTS

Royal Academy Tel: (0171) 439

Impressionist and post-impressionist paintings from Swiss private

 Arianna: by Goehr. World the myth of Ariadne's abandonment by Theseus, Soloists include Susan

Oct 4

CONCERTS Avery Fisher Tel: (212) 875 5030 Daniel Barenboim: pianist plays Beethoven's "Sonata in C". Brahms'

his only New York recital is

Brauner, Dali, Miró and Picasso:

from Oct 4 to Nov 27 Dyck and Raphael; from Oct 8 to

 New York City Ballet: performs the Robbins choreographed "Watermill" with music by Ito and New production starring Carol

"Watermill" with music by Ito and "The Goldberg Variations" with Woolly Mammoth Tel: (202) 488 music by Bach; 8.30pm; Oct 7 (3pm) Opéra National de Paris, Bastille 3300

GALLERIES

Kunsthaus Zürich

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# Crazy times in the credit culture



in the summer of 1987 Adam Faith, the pop singer turned actor, bought me lunch in Knightsbridge.

When I asked husiness then consisted of, he replied "corporate finance". I gathered he was marketing share and property deals to wealthy clients. A Faith unit trust was also on the drawing board. Alas, it all crashed in October, along with the global stock market. But there was an alternative: he became an associate of Roger Levitt, the life insurance sales wizard, though there is no suggestion that Faith knew the truth about

Levitt's business practices.

Jonathan Mantle's book vividly, if anecdotally, hrings hack the flavour of those crazy times. Even after shares tumbled, property prices continued to soar, for a while. There was an economic miracle - chancellor Nigel Lawson himself had said so. Simply everyone could get rich quick.

When you unleasb sbarp salesmen on an ignorant and almost equally greedy public, you are simply asking for troubie. Maybe when only, say, vacuum cleaners are involved there are no terrible consequences. But when you allow the hucksters to sell apparent financial security and prudent investment, all wrapped up in tax relief, with implied government support and regulatory approval there will be much more at stake and scandals are

bound to multiply.

There have been financial scams galore down the ages, but Mantle focuses upon the problems that emerged in the late 1980s - hence the book's subtitle, Tales from the Last Days of the Credit Culture, The themes include the disaster of the home income plans, when thousands of elderly people mortgaged their bomes to invest in bonds that failed to provide the expected income; the saga of Roger Levitt, who was convicted of fraudulent trading after his group collapsed with more than £34m (\$53.7m) in debts; the Maxwell pensions scandal, when nearly £440m of pension assets disappeared; and the ultimate in upper-crust rip-offs, the losses

FOOL'S GOLD By Jonathan Mantle lair-Stevenson, £17.99.

at Lloyd's that entrapped and ruined swathes of the Home Counties middle classes who had provided capital for the London insurance market by becoming Names.

Mantle mostly leaves the reader to make sense of it all. This is an impressionistic book, focusing on a few particular cases, like the elderly couple who took out a home income plan in 1989 but, far from gaining income, are now stuck with paying out £100 a month on a mortgage for life. The analysis, such as it is,

comes through interviews with

two figures with axes to grind: Professor Jim Gower and Joel Joffe. Gower produced the original report on investor protection for the Department of Trade and Industry in 1984, which paved the way for the Financial Services Act 1986. Joffe had prospered at his old friend Sir Mark Welnberg's insurance company, Allied Dunbar, but later experienced a conversion which has caused him, from his manor house in West Country, to denounce the hard-selling practices of the life industry.

antle previously about the Lloyd's disasters, so it is not surprising that the tottering insurance market provides the best chapter. Here the salesmen were not only aggressive and unscrupulous but. fatally, they had English class snobbery on their side, inviting participation in (or "membership" of) a glamorous part of the financial establishment. Disclosure, judgment and analysis went out of the

In life assurance the author is less well-versed; for instance, the five-year endowment pollcies which he mentions at one stage do not exist. He willingly accepts the views fed to him by Gower and Joffe. The big fail-ure, he concludes, was that the government (under pressure from the Office of Fair Trading) refused to accept the life insurance industry's recom-

nary water glasses: the wine is fruity and smooth, although not properly chilled. "And very dry," be adds. "1993 was a good mendation of a fixed maximum commission scale as its solu-tion to the problem of aggres-

r Gheorge Seicas, the chief engineer

at Vitis-Hincesti

winery in central

Moldova, brings out four

the local chardonnay into ordi-

Set among rolling hills cov-ered with vineyards and sun-flower fields. Vitis-Hincesti will

send 600,000 bottles to the US

and UK this year and expects to triple exports to the west before the end of the century.

The winery has forged an alliance with western wine-

makers to improve its produc-

tion methods and marketing.

Moldovans are proud of their wines and believe that with the

right skills, they can expand the market for them in the

"Moldovans know everything about wine," says Mr Ion Mar-

duci, general director of IMCO,

a company that bottles and

exports wines and makes chic

labeis for local wines. "We're a very humble peopla who don't like to boast, but I don't think

our wines are any worse than

Moldova, a largely Romanian-speaking country, seceded from the Soviet Union in 1991.

The wine industry accounts for

about half its gross domestic

product - bnt production has

fallen from 500m litres in the mid-1980s to 200m last year.

Last year Moldova's gross

domestic product contracted

tional Monetary Fund expects it to grow only 1.5 per cent in

1995. Restoring the fortunes of

the wine industry is seen as

vital to the country's indepen-

dence and economic recovery.

Soviet Union is the main cause

of the decline. Moldova used to

supply one in three bottles of

wine drunk in the USSR, but

sales began to contract under

the temperance drive intro-duced by Mr Mikhail Gorha-

chev, the former Soviet presi-

dent. The collapse of the

Russian economy after the

break-up of the Soviet Union

further reduced exports to the

region.

The death of communism

also meant changes in market-

ing and distribution. Moldovan

wine had been bottled at plants

in Ukraine and then distrib-

uted to the Soviet republics through the central planning

system. These arrangements

ended in 1992, when Ukrainian

bottle suppliers suddenly

wanted hard currency for their

The disintegration of the

French or Italian brands."

But the OFT would argue that the greater mistake was to fail to insist on adequate disclosure of commissions and coats, a change that was fiercely resisted by the life industry right through the 1980s and early 1990s, and was only finally introduced in January this year.

In the end, bowever, a satisfactory market can develop only when the salesmen are professionalised and the public is educated. Even today this is a remote prospect, and in the late 1980s the tone was set by likes of Levitt, decked out with alligator shoes, loud bow tie and Davidoff cigar. His opening line at sales meetings was "Twe sold £5m of insurwhat have you done?" Yet be talked respectabla insurance giants such as General Accident and Commercial Union into investing in his shady empire.

As Mantle points out, the changing climate destroyed of the lower-tier pillars of the financial community, the bank manager. According to a retired Barclays manager, the personal touch was replaced by objectives laid down by head office, soon to become formal "targets", with performance league tables and incentives. Thus 55-year-old bank managers were replaced by 35-year-

The book is effective in highlighting the confusion of the innocent and ignorant: the middle-aged woman who insists she should be compensated for losses when she and ber husband banded over money to a crook, the couple who were persuaded that Lloyd's membership would pay school fees for nothing. But the proper analysis of the retail investment industry's agonising growing pains has yet to be

As for Adam Faith, he has bad a career change. "I've derided at last on the person I am. I am an artist," be is quoted as saying. No unit trusts? No insurance bonds? Perbaps it will now be safe for me to return that lunch.

Barry Riley | poor-quality products.

The former Soviet republic is looking to the west to boost the industry, says Matthew Kaminski pagne bottles a year by 1997. "In the last two years we've tried to invest in upgrading our technology and getting on

# Hopes flow for Moldovan wine



Liquid assets: the Vitis-Rincesti winery expects to triple exports to the west by the end of the century

Some progress bas been made in finding new markets. Exports to the European Union have risen from 1.5m bottles in 1993 to 5m last year - inexpensive Moldovan whites are readily available in UK super-

However, the small former Soviet republic still sells most of its wine in eastern Europe. The industry wants to increase sales to the west from 8m bottles this year to 20m by 1998. Moldova will not find it easy

to turn its export potential into reality. Like so many industries in the former Soviet Union, winemakers rely on inefficient production methods and have only rudimentary marketing skills.

Vitis-Hincesti has embarked on an unusual business relationship to help it modernise. Three years ago the Moldovan winery struck a barter deal with Hugh Ryman, the company of self-styled "flying winemakers" based in Bordeaux, France, and with Penfolds. the Australian winemaker, to produce wines in exchange for a \$500,000 bottling plant. This has also brought the Moldovan winemakers know-how on production, packaging and marketing.

We spent a lot of time cleaning things, and people didn't understand why," says Mr Con Simos, the 29-year-old Australian who runs Hugh Ryman's operations in Moldova and Hungary. "You'd be surprised how hygiene makes a difference."

The French company initially bought 15 per cent of the output, but soon found that western consumers were not flocking to buy the downmarket wine with its \$1.50 price tag. Mr Simos blames "poor consumer perception of Moldova".

Confident about quality, the company simply changed the name: Rochu de Hincesti, the chardonnay, now sells as Kirk-

Forecasting's fundamental flaw

as the debasement of the unit

of account, then gold becomes

the best measure of monetary

value in a world of floating

exchange rates. Historic data

shows that changes in the ster-

ling price of gold presaged the inflation rate decline by 10

months. Gold fell from £255 per

ounce in December 1989 to £195

by July 1990. British producer

and consumer price rises sub-

wood in the UK and Hickory Ridge in the US. Sales are up 40 per cent this year. French labels, Bulgarian bottles and Portuguese cork have replaced the old Soviet packaging mate-

"When you start from nothing, you have to build up something before many more agents will buy it," says Mr Simos, who adds that the company first had to open an office, set then find a way to get the wine out. It is now shipped through the port of Odessa in Ukraine.

The European Bank for Reconstruction and Development's first loan to Moldova approved last year - was \$30m to boost wine output over the next three years. Backed by part of the loan, Eleusis, a Spanish construction company. last month began to equip and build a modern bottle plant outside Chisinau, the capital, that will produce 50m wine bottles and 40m cham-

moved in tandem ever since.

Prof Kay correctly cites the

inability of most forecasting to

ldentify structural changes in

the economy as a "fundamen-tal weakness". Much more is at

issue, however. That conven-

tional economic forecasting

(and not just in Britain) is so

consistently inaccurate can

only snggest the prevailing

Keynesian model itself is fun-

damentally flawed.

our technology and getting on the world market a ready product," says Mr Sergiu Sarghi, external economic relations director at Dacia-Fenix, the commercial association of viniculturalists and vineyards. As wine officials eagerly

seek outside investment, state wineries are finally changing owners after privatisation began in earnest last year. Vltia-Hincesti spent four decades in state hands before a recent takeover by the workers. By law, bowever, land cannot be freely bought or sold until 2001, and foreigners are more interested in the fields than the ageing machinery.

To us, a factory would be

useless. We'd just tear it down and start all over again," Mr Simos says. "We're only interested in the vineyards."

s the country makes its export push westwards, it fears obstacles from the European Union. Moldovan wine is more highly taxed on entry to the EU than the two leading east European producers, Bulgaria and Hungary, which have association agreements

Mr Anton Spee, an EBRD marketing consultant, says the higher EU import duties imposed on former Soviet republics raise prices of Moldovan wines. But be adds that for the time being Moldova's low production costs have balped keep the retail price down.

This year Moldova wants to raise exports to the US and Australia and to try to restore sales to the former Soviet Union. Many consumers there turned to western brands when Russia's borders opened after 1991. Although an increasing proportion of Moldovan wine production goes to western markets, Mr Sarghi stresses that Moldova "must recapture the Russian market".

Bulgaria and Hungary started exporting to the west long before Moldova, and found a niche market for modestly priced wines of acceptable quality. They thus paved the way for other east European producers sucb . as Romania. Moldova bopes that if it improves quality and pack-

aging, it could follow suit.
"The perception of east European wines is getting better," Mr Spee says. "Moldovan wineries are making the hard decisions, buying new equipment, privatising. The future looks

#### Introducing a fax that doesn't say 'beep' to your most important customer.

You know the situation. You're sitting there waiting for that all important call. Suddenly the phone goes, It rings twice. Then, horror of horrors, you realise that someone has left it switched to 'fax'.

If your customer hasn't already hung up, he's going to be a little frustrated to say

A UX fax machine from Sharp has automatic fax/phone changeover, which instantly determines between a voice and a fax call, then adjusts accordingly.

Even if you're not around, the UX can be hooked up to your answer machine. So you can receive messages, phone calls and faxes all on one line.

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And don't worry if you don't have a brilliant memory. The UX fax has, It can save up to 15 of your most used numbers in the automatic dialler. So there you have it. The Sharp UX fax. We suggest you buy one soon, before your important customers start saying 'bccp' to you. Call free on

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0800 262958 quoting ref XFTA1 to find out more.

If inflation instead is viewed Not a good argument

Sir, Professor John Kay's

survey of UK economic fore-

casters ("Cracks in the crystal

bail". September 29) reveals a

telling consistency of inaccu-

racy. He points to the uniform

failure to foresee the "dramatic

and continuing decline in infla-

tion since 1991". Although

lower price levels may have

surprised those who hold that

inflation is a consequence of

"excessive demand", the slowdown in price increases was

quite predictable.

From Mr Philip Cullum. Sir, National Power and PowarGen apparently justify their bids for regional electric ity companies as a kind of raid on skills, in preparation for the competitive market in 1998 ("Escaping the power sector's generation gap", October 2). "Neither of the generators marketing and customer ser

has the expertise in billing, vice to attack the domestic supply market," reports David Wighton, So, rather than build such operations themselves. "they have opted to buy them".

However, from the consum-er'a perspective, this is all rather unconvincing. For instance, the electricity compa-nies surely have little more marketing experience than the two geoerators when it comes to wooing domestic customers, if only because the companies face the undemanding challenge of aelling an essential product to a captive market.

As for customer service, when we surveyed utility customers for Which?, the fairly dismal achievement of the regional electricity companies was to outshine only the water

It is disappointing how little PowerGen and National Power have said about improving service for customers, if the hids succeed. Some details of what the generators intend to do to give customers a better deal would be welcome. Philin Cullum. policy manager, Consumers' Association, 2 Morylebone Road,

London NW1 4DF, UK

sequently peaked, in October 1990, and then fell for the next William P. Kucewicz. 12 months. Sterling gold Polyconomics Inc. price fluctuations and 86 Maple Avenue, UKrates of inflation have Morristown, NJ 07960, US

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine').

> From Mr Adrian FitzGerald. Sir, There is an urgent need for a review of the combined effect of the 1993 Criminal Justice Act, Part V (insider dealing law) and the Stock Exchange's reinforced guidance on the dissemination of

price-sensitive information. Last year my prediction that the new rules would result in a less efficient equity market and that a significant increase in profits warnings would lead to greater share price volatility was reported in the article "Analysts wary of tighter net" (March 22 1994). This has

proved to be the case. It is partly smugness which prompts me to write, in fact. having recently disposed of personal shareholdings in Alfred McAlpine and First Choice Holidays. The shares of both companies were badly mauled after each had given a profits warnings.

Moreover, and as many investors will know to their cost, these are just two of many similar cases over the past 18 months. Any observer of the UK market must cooclude that, while

it may be a fairer market in the sense that professional analysts and managers no lon-

of companies is still included in the "leading" Financial Times/Standard & Poor's -

Actuaries World Indices and in

| Market pricing problems ger benefit to the same extent from corporate nods and winks, it now has serious inefficiencies. It is clearly the case that in this environment many shares can be badly mis-priced for lengthy periods. Indeed, I would certainly feel disgrun-

tled if had recently been a

buyer and not a seller of

McAlpine and First Choice. The net result is heightened short-termism. What incentive is there for investors to assess and invest on the basis of long-term prospects when they are only too aware that a sig-nificant proportion of asset value can be wiped out within

As an aside, it is interesting to note how few companies relay warnings that market expectations are too low.

I do not have a ready solu-tion to offer. Moreover, I would not wish to dig up the fairer playing field now established However, present market inefficiencies can only serve to frighten off both existing and potential participants. A satisfactory solution will have to be Adrian FitzGerald.

Pomathorn Farmhouse, Peniculk. Midlothian EH26 8PJ. UK

#### Metrication pipe dream in Germany

From Mr Jonathan Miles.
Sir, Your article on metrication ("FT"s 10% inch-wide guide to metrication". October 2) recalls the latest twist in the UK's long and agonising metrication debate.

Britisb readers may be interested to know that their authorities have scored an own goal, for in Germany, as bere in Luxembourg, pipes, taps and the like are calibrated in inches. Britain, however, has been metricating these fittings for some years in some misplaced gesture of "European"

harmonisation.

Moral: the German industrial lobby knows better how to protect itself from the crippling costs of change which bureaucrats and Eurocrats would inflict on them than do the gullible British. Jonathan Miles. 315 route de Longwy,

L-1941 Luxembourg

From Mr Robert G Rae. Sir, Rapid application of a measuring device shows the text of your "10% inch-wide guide to metrication" (October 2) to he a mere 10in wlde. prompting the question - are we all being abort-changed, like the baked bean afficionados, or has the remaining I of an inch ended up in the "gutter" along with much of the rest of the antiquated British

measurement system? The same measuring davice shows an FT page to be 39cm wide and 60cm deep, while the text width is 5cm wide. So it seems the FT. at least, made the wise decision to "go metric" some time ago? Robert G Rae, 98 Ranby Road

Sheffield, South Yorkshire S11 7AL,

Jardine still has place in a 'leading' index

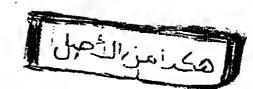
the FT/S&P AWI Hong Kong From Mr Richard Pain. Sir, Oh dear, that this should country index.

This group is difficult to have to be pointed out to Lex (September 27). The Jardine Matheson group

place following changes in cor-porate structure that it has instigated, but the World Index Policy Committee felt It was important to keep it as a constltuent of the Pacific Basin

Regional Index and, within that, to maintain it in Hong Richard Pain

chairmon. FT/S&P Actuaries World Indices Policy Staple Inn Hall, High Holborn, London WC1, UK



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# Apec agrees customs checks deal

Accord sets target for uniform standards by end of the decade

By William Dewkins in Tokyo

14

Members of the Asia-Pacific Economic Co-operation forum, embracing 40 per cent of world trade, have agreed in principle to adopt common customs checks by the end of the decade.

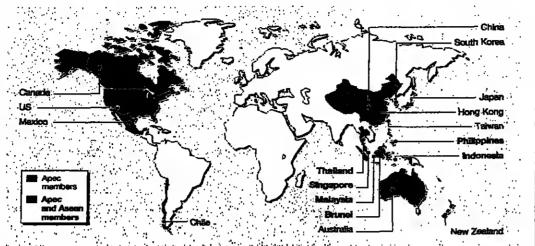
The accord, reached at a meet

ing of customs officials chaired by the Japanese finance ministry, is the most concrete step by Apec towards realising its target of ending industrialised countries trade barriers by 2010 and opening developing countries' mar-kets by 2020, said officials.

In other areas, progress was yesterday being held up by a US-Asia deadlock over agriculture. Japan South Kores and China want to shelter farmers from free trade, while the US and Australia. Apec's biggest food exporters. insist on no exceptions.

The customs deal is to be presented to a meeting of senior Apec officials in Tokyo next week, for adoption by the forum's annual summit in Osaka next month. The accord contains nine steps to ensure that goods pass through the same customs procedures.

These include common rules for valuing goods to assess import tariffs; wider enforcement



of copyrights; the adoption of a single Apec customs declaration form; and the computerisation of clearance procedures in line with United Nations rules. They agreed to prepare a precise sched-ule by the end of the year.

A Japanese official yesterday said that the Apec sub-committee on customs procedures had made more progresa than any other working groups attempting to flesh out the free trade plan.

The Apec farm trade dispute, by contrast, worsened yesterday, when Mr Tomiichi Murayama, the Japanese prime minister, vowed to seek to exclude agriculture from the free trade plan.

Mr Murayama said Japan planned to keep to its undertak-ing in last year's Uruguay Round world trade deal to open its rice market, allowing imports representing just 4 per cent of total

Mr Ryutaro Hashimoto, the minister for international trade and industry, warned that Apec could collapse if farmers were not given an exemption. However. Australia fears that Apec'a free trade plan could unravel if farmers are protected. Mr Paul Keating, the Australian prime minister, has argued that granting exemption to farmers would invite other sectors to demand

#### Daiwa Bank

Continued from Page 1

the bank's problems had been

completed.

He rejected suggestions that the hank had deliberately not told the US authorities about the losses discovered at the New York branch.

The bank received notification of the losses in July hut waited until September 18 before informing regulators in Japan and the US. Daiwa says the delay was the result of the detailed internal investigation it was forced to

Mr Fujita also denied reports that Mr Toshihide Iguchi, the trader allegedly responsible for the losses, may not have acted alone. Japanese newspapers had earlier cited US investigators' reports that Mr Iguchi had covered up the losses with the aid of

an accomplice. But Daiwa did arouse new suspicions about its conduct when bank officials confirmed yesterthat it had raised more short-term funding than usual in the money markets in the days immediately before revelation of

Daiwa Bank's shares fell by another Y20 on the Tokyo stock exchange yesterday to close at

# Brussels acts against Italy on mobile phone competition

By Emma Tucker in Brussels and Andrew Hill in Milan

The European Commission began legal proceedings against Italy yesterday for failing to allow fair competition in domestic mobile telephone services.

Mr Karel Van Miert, the competition commissioner, who has described Italy's approach to the mohile telephone sector as a "scandal", helieves Omnitel Pronto Italia, the only private mohile company granted a licence, has suffered severe dis-

He won the support of other commissioners to begin legal proceedings, which set a deadline of three months for action by the Italian government, after repeated letters and requests to Rome failed to produce results.

The Italian authorities have refused to allow Omnitel, an international consortium in which Olivettl is the biggest shareholder, to operate a cellular phone network under the same conditions as Telecom Italia, the state-owned monopoly. In particular, Telecom Italia has not been

Seat, Volkswagen's lossmaking Spanish subsidiary, has agreed to cut capacity by 30 per cent in return for Brussels' approval of a Pta46bn (\$365m) state aid pack-age, Mr Karel Van Miert, the competition commissioner, said yesterday, This amounts to 1,000 fewer cars produced a day across the Seat group, according to an

asked to pay the same fee that Omnitel had to pay in order to win the licence.

Yesterday, Commission offi-cials said the Italian authorities had the three months in which either to demand a similar payment from Telecom Italia or to grant Omnitel concessions such as better access to networks - that could he judged to be adequate compensation for the ond operator.

The Italian telecoms ministry declined to comment yesterday on the grounds that Mr Agostino Gambino, the minister, had not yet received official notification of Mr Van Miert'a decision. Telecom Italia Mobile (TIM),

the state-controlled mobile phone company, and Omnitel. which won the licence for the second digital mobile phone network in March last year, also declined to

Omnitel has claimed that it did not ask Mr Van Miert to intervene on the question of the entry fee. On most other regulatory aspects, however, it has fought hard, both in Rome and Brussels to reduce TIM's head start in the mobile sector

Recently there has been an uneasy truce hetween the two rival companies, although last month's launch of Omnitel's "experimental" service has triggered a new marketing battle. Omnitel plans to begin a full commercial service by the end of

The Commission said it recognised that progress had been made hy the Italian authorities since it first threatened legal noted that draft legislation aimed at reforming the regulatory regime of the Italian telecoms market was recently submitted to the Italian parliament

#### THE LEX COLUMN Shrinking Trust

Few traders would want transcripts of their phone calls published. A penchant for foul language is almost a requirement for the job. But the Bankers Trust tapes, published as part of Procter & Gamble's racketeering suit against the bank, reveal more than high Jinks. They show glee in being

able to outwit customers.

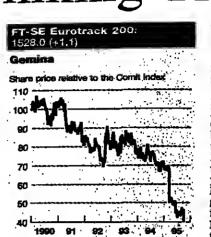
The bad publicity generated by claims that Bankers Trust sold corporate clients inappropriate derivatives has already taken its toll on its business. Customers have become more wary about buying heavily-leveraged products whose risks they do not fully understand. Given that the damage is already done, the latest embarrassing disclosures may not make things much worse. However, they do strengthen the case for a overhaul of Bankers Trust's culture. While specific problems may be confined to a few individuals, it is hard to believe that the lack of concern for customers' interests is unconnected to the bank's aggressive transaction-driven culture.

With Bankers Trust's top management in flux and its shares trading at a discount to those of its peers, the group is talked about as a possible takeover target. After all, several big European commercial banks are anxious to huild up their investment banking presence in the US. But it would be a brave bank that believed it could knock into shape an organisation with such a gung-ho culture. Moreover, Bankers Trust is relatively weak in equities - the business which European banks are most keen to develop. It will probably have to find its own solution to its problems.

#### Gemina

Gemina's andacious proposals for huilding up a vast Italian industrial empire always looked like a case of ambition getting the better of ability. Gemina's management had a poor record with existing subsidiaries. Yet it planned to take over Ferruzzi Finanglaria and various Fiat subsidiaries in a deal which would give it control of a complex spread of unrelated busi-

Such concerns have been exceeded hy last week's revelation of huge losses at RCS, its publishing subsidlary - Gemina only recently said RCS was on a recovery track. The subsequent 18 per cent drop in its share price is both costly and embarrassing for the puppeteers hehind Gemina, Mediobanca and Flat. They are talking about management reshuffles at



Gemina. But the dynamics of the transaction have switched in favour of shareholders in Gemina's takeover targets, such as Ferfin. More Gemina shares will now need to be issued, further diluting Mediobanca/Fiat con-

trol of Super-Gemina. This is good news for some parties in the transaction, but offers no solace to ahareholders in Super-Gemina's largest component, Montedison. Super-Gemina will become a vast diversified holding company, but its largest asset will he a 30 per cent stake in another giant conglomerate, Montedison. Given overlaps, such as head offices, further restructuring seems inevitable. Control of Montedison has changed hands twice in three years without minority shareholders receiving any premium. They could end up on the wrong side of yet another reshuffle.

#### BT/Labour

Mr Tony Blair's Labour party and BT are clearly having a problem communicating. Labour thinks it has a deal that BT will provide free connections to the information superhighway for schools and hospitals in exchange for looser regulation, BT calls it more of a concept. But the crossed lines are not the real problem. More seriously, the episode underlines a weakness in Labour's whole idea of partnership between public and private sectors This is now revealed to amount to trading the public interest in exchange for favours from a private company.

It is donbtful whether trading the public interest is wise in principle. But, if Labour is going down this route, it should at least press for the

best deal. The cost to BT of cabling up

schools and hospitals will be tiny by comparison with the total £10hn phas investment that will be needed to create a nationwide infrastructure. It is not even as if the schools will then get free use of the network.

If Mr Blair was thinking really com mercially, he would have approached BT's rivals and held an auction. The cable television companies might have been willing to throw free usage into the bargain if Labour promised to keep BT out of their market for a few more years. AT&T, which is on the point of entering the UK phone man-ket, might have offered even more goodies if Mr Blair promised to tie Br in regulatory knots. Sadly, new Labour has revealed itself to be a touch naive when it comes to commercial negotiations.

#### Life assurance

After two years of conflict between the UK life assurance industry and its regulator, there is the real chance of a ceasefire. Instead of a peace dividend Mr Andrew Large, chairman of the Securities and Investments Roard is offering a "disclosure dividend". He argues that greater openness and higher standards on the part of the life companies ahould lead to their being more lightly regulated. The industry still has much to prove following the scandals over endowment mortgages and pensions mis-selling. But if it can win back credibility by having better-trained salespeople delivering prod-ucts that are easier to understand, it should be rewarded with greater flexibility and lower compliance costs. For investors, the strong fundamentals of tha life companies, with robust bal-ance sheets, capacity to increase dividends and growing underlying demand, should then reassert themselves. The sector's outperformance since last month's results from Pradential Corporation is a sign that this

is already happening.
As long as full disclosure and training remain the cornerstones of regulation, many of the detailed procedures should be easy enough to cut out. There could even be a system under which the hetter companies suffer fewer inspections and need to comply with fewer rules. If he really wants to make a difference, however, Mr Large should also look at streamlining the number of regulatory hodies them-

Additional Lex comment on

# Apple finance chief resigns after boardroom dispute

FT WEATHER GUIDE

Continued from Page 1

resolved, company officials

Apple's board issued a statement yesterday reaffirming its "full support" for Mr Spindler. Apple said that Mr Graziano has resigned as a director, effective immediately, and will leave the company by year end. Mr Graziano stressed that the part-

ing was "amicable" This was not a palace coup," said Apple, refuting reports that Mr Graziano was attempting to

oust Mr Spindler. Mr Graziano's departure is a blow for Apple. As chief financial officer he has played a central role in Apple's restructuring over the past two years.

Mr Graziano first joined Apple in 1981, and served as chief financial officer until 1985. During that time, the compa-

ny's annual revenues grew from

\$300m to \$2bn. After a two-year sahbatical, followed by two years as chief financial officer at Sun Microsystems, he rejoined Apple

Wall Street reacted calmly to the news. Apple's share price was off \$1% to trade at \$36% in mid session yesterday.

#### **FITELECOM** a.s.

has sold a 27% interest in the company to

#### TelSource N.V.

a limited liability company owned 51% by PTT TELECOM B.V. and 49% by Swiss PTT

Morgan Guaranty Trust Company of New York assisted in all aspects of the tender and acted as financial advisor to SPT TELECOM a.s. and the Ministry of Economy of the Czech Republic.

#### **JPMorgan**

September 1995

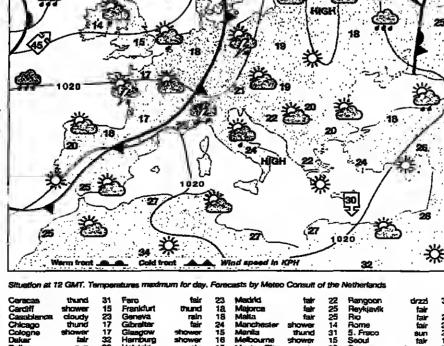
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#### **Europe today**

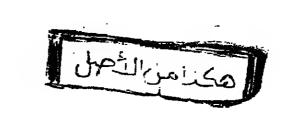
The circulation around a high pressure area over eastern Europe will draw warmer air into the eastern half of the continent on southerly winds. In the warm air, sunny spells are expected and temperatures will rise above seasonal values. Meanwhile, colder air will sweep into western Europe. Consequently, showers, occasionally accompanied by thunder and hail, will erupt over the northern UK and tem France. France will see scattered cloud and the Iberlan peninsula will have sunny periods. On the boundary between the warmer air to the east and colder air in the west, cloud will dominate and some rain or thunder shows will develop from central Norway Into southweden, Germany, the Alps and across eastern and south-eastern France and northstern Spain.

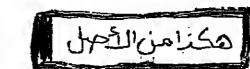
#### Five-day forecast

High pressure over eastern Europe will build to the west. As a result, conditions over the continent will become more settled with sun spells during the day. At night, some foggy es will persist, though rain showers will be absent. Due to the extensive nature of the high, depressions will stay over the Atlantic and changeable conditions will only occur over the UK and Scandinavia.









# FINANCIAL TIMES

Number One Southwark Bridge, London SEI 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday October 5 1995

# Sound Budget, sound politics

made any secret of his lack of interest in the reform of the tax structure. His successes so far have stemmed more from a readiness to look a deficit in the eye and administer politically audacious remedies. This is not a tal-ent to be despised in any chancellor. Yet improvements in the overall fiscal stance have been won at the cost of more distortions in the system. This is notahly true in the area that matters most for growth: the taxation of savings and investment.

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Among the chief priorities here should ha an attempt to restore neutrality between different types of saving, so that resources flow naturally towards the highest pretax returns. With a general elecition looming, the temptation in November's Budget will he to direct them instead to areas of maximum political advantage. Yet the two objectives are not necessarily incompatible. There are courses open to Mr Clarke which would allow him to argue that in micro as well as macro matters, good politics are good economics.

This trick will be least easy to

achieve in housing, where the demand for a quick fix is not far short of overwhelming. Yet there are no obvious fiscal wheezes that would produce a sustained increase in house prices at other than probibitive cost. Nor would they be desirable anyway.

The privileged tax status of housing, which attracts mortgage relief, exemption from capital gains and the absence of tax on the imputed income from owneroccupation, has fostered the great British illusion that wealth can be created by trading in property, instead of producing goods and services. The resulting high level of home ownership, along with the accompanying decline in the private rented sector, has also hindered labour mobility. If there is to be help for the housing market, it should be no more than a by-product of any reduction in the standard rate of income tax.

Enriching bonus

Another temptation that the chancellor should continue to resist is a revenue-maximising raid on the pension funds. In a period when they are dealing with new minimum funding requirements, potentially lower returns on investment and a reduced tax credit on dividend income, it would make more sense to relax revenue irrelevant. excessively tight Inland Revenue rules on the accumulation of surpluses than to reduce the tax credit further.

In any event, a reduced tax credit would increase companies' pensions hill by eroding solvency - a point that Mr Norman Lamont disingenuously failed to make when he dressed up the last raid

industry. Such changes do nothing for employment. A repeat performance would also amount to harsh treatment for business, which is already increasing its contribution to the exchequer through corporation tax from £14.9hn in 1993-94 to a forecast £26.4bn, or 26 per cent of the total tax take, in 1995-96.

The greatest opportunities for the chancellor lie in the area of capital taxation, where the yield from capital gains tax and inheritance tax, at less than 31/2 per cent of total tax revenue, is so low that it is possible to achieve politically worthwhila change at minimal cost. By now the flat-rate 40 per cent inheritance tax is a largely voluntary, and exceptionally arbitrary, impost that falls only mar-ginally on the genuinaly rich. Ironically, one result of the tax privileged treatment of housing is that the biggest victims of inheritance tax are those whose only significant asset is a high-value home. Any loss of revenue from an increase in the £154,000 threshold could he financed by very low rates of tax on the recipients of

Constructive change

With capital gains tax, mean-time, there is plenty of room for constructive change. At 40 per cent, the rate is one of the highest in the world, which bears very heavily on entrepreneurship. It also distorts investment decisions by creating a locking in effect. The high rate has increasingly been offset hy devices such as Mr Clarke's enterprise investment schemes and venture capital trusts. Yet experience suggests that such vehicles may succeed only in directing resources to suboptimal investments. Reductions in the capital gains

tax rate according to the length of

time for which assets are held would make more sense. It would reduce the bias in favour of tax-exempt institutional investment. while softening the locking in pen-alty. Admittedly the advantage of having capital gains at the same level as the top rate of income tax would be lost, creating a renewed incentive to take investment returns in the form of capital gains. Yet this disadvantage would be outweighed by the boost to entrepreneurial business. The best solution anyway lies in an expenditure tax, which ma distinction between capital and

A final option, not without politlcal attraction, would be to recognise that bank and building society deposits are the cinderellas of the fiscal system. The logic of combining Peps and Tessas in a single scheme and extending it to all investments at a lower ceiling than the current £9,000 for Peps would help less well-off savers as a cash enriching honus for while enhancing neutrality.

# **Economics** as futurology

Economists have plenty to say about the forces behind the economic headlines, but rarely can they accurately predict the news in advance. Time and again, the world asks them to gaze into their crystal balls and, time and again, they oblige, with ever-more precise, but mistaken. estimates of future events.

The continued demand for economic forecasts, for all their well-known failings, is easy to understand. Most people prefer a flawed picture of the future to a hlank canvas. By the same token, one does not need a heavy schooling in economics to understand why there should be a supply of forecasts to meet this demand. What is more difficult to understand is the profession's apparent determination, not merely to provide forecasts, but to allow itself to be judged by them.

Professor John Kay of the London Business School outlined the failings of traditional economic forecasts in an article in last Friday's FT. As he noted, economic forecasts have a consistent tendency to cluster around a "safe" guess that next year's inflation. say, will lie somewhere between today's rate and its longer term average. As a result, most forecasts are wrong, most of the time, especially when the economy is at a turning point in the cycle or, more difficult still, structural economic changes are afoot.

Historic shift Forecasters have rushed to defend their art against such slander. But not all should be insulted by Prof Kay's remarks: it all depends on what the forecasts are supposed to achieve. Private economists, like investors, need to weigh the risks of inaccuracy against the rewards of being right. Often, it may be more important little sign of doing.

to avoid disaster than to win "Golden Guru" awards. The "safe" forecast, though rarely spot-on, is less likely to be wildly off than a prediction based on the heroic assumption that a historic shift in behaviour is about to occur. Academic economists, however,

have no such excuse for running with the pack. They can afford to take risks in pursuit of an interesting analysis of the economics hehind the growth and inflation rates. Once every few years, a dogged desire to be different pays off. But even the hopelessly wrong forecasts will often contain more economic insights than the consensus estimates.

Persistent revisions

Purists would argue that institutions such as the International Monetary Fund and tha OECD should get out of the forecasting husiness altogether. Certainly, the persistent revisions to the IMF's numbers do little for its reputa-

In the World Economic Outlook. published yesterday, the organisation has revised its growth for the seven leading industrial countries. expecting them to achieve only 2.4 per cent growth this year. In April, the same economists expected these economies to expand by 3 per cent, while only 12 months ago they expected a hearty 3.6 per cent rise.

At the very least, the fund and others seeking recognition as economists rather than astrologists should abandon single forecasts in favour of a range of "scenarios". These allow one to take a more thoughful approach, while reducing the risk of getting it wrong. But the media and others would then have to stop asking on a "bottom-line" guess to fill the headlines: something we all show

husiness leader must always he willing to shake things up, says Mr François Michelin, head of the French tyre giant. "You cannot let people become set in their ways," he declares.
Such a view might seem surpris-

ing from the softly-spoken Mr Michelin, who has managed the secretive company for the past 40 years with a discreet, retiring manner. But the strategy of bold expansion and innovation he has pursued in pushing Michelin from its provin-cial French roots to the top of the world tyre industry points to a mould-breaking streak.

It is one of the qualities, be says, that he finds in Edouard, his fourth son and designated successor to the tyre empire. Having returned in 1993 from a two-year stint in charge of the company's US operations, Edouard is playing an increasingly prominent role, sitting alongside his father at the company controls and in a rare interview at the Clermont-Ferrand headquarters.

The double act, and moves towards Edouard's eventual succession, mark a crucial period in the unusual history of Michelin, a family enterprise which has grown into one of the country's largest industrial groups. After emerging from a financial crisis at the beginning of the 1990s, the partnership will deter-mine whether Michelin can manage a smooth transition and fend off resurgent competition from Goodyear of the US. Bridgestone of Japan and emerging pretenders from east Asia. The Michelin chief expresses few

concerns on the management score. "If Edouard was not right, then we would have looked elsewhere ... if he was not the hoss here, he would be at another company," says Francois. 'He has 32 years of experience at Michelin," he jokes, referring to Edouard's age, less than half his 69

The once-closeted Michelins have opened up somewhat over the past few years. But they remain guarded about the division of responsibility. "It is something between father and son," says Edouard. "As my father says, if you ask a centipede how it walks, it will get a headache," he adds. François describes a system of collaboration, aided by Mr René Zingraff, the third managing partner. This arrangement is due to last until François' official retirement date in 1999, with a possible twoyear extension.

If the family ties seem solid, the Michelin men also confront their challenges from a position of renewed husiness strength. Last month's announcement that net profits had trehled to FFr1.43bn (\$291m) in the first half of 1995 confirmed Michelin's recovery from the heavy losses which pushed it into grave financial difficulties. We were accelerating down the

fast lane when he hit a traffic jam." says François, referring to a phase of aggressive expansion which brought new factories at the rate of one every nine months hetween 1960 and 1990 and which culminated in the acquisition of Uniroyal Goodrich of the US in 1989. The deal fulfilled Mr Michelin's long-term objectives, making his company the almost 20 per cent of the market. But it hurdened Michelin with

Tew cities are identified as closely with a company as Clermont-Ferrand is with Michelin. For the postwar period, and for many years before, the tyre manufacturer has been the higgest employer in the provincial centre and its Auvergne surround. ings in the heart of France. Michelin's treadmarks are abun-

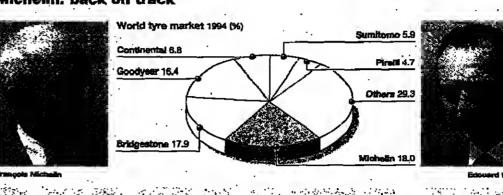
dant, Boulevard Edouard Michelin, named after the company's cofounder, runs close to the faded facades of the multinational's original 19th century site. Scattered around the town are hars with names such as Les Bibs - the nickname given to company workers which refers to Bihendum, the roly-poly Michelin mascot. In recent years, however, the

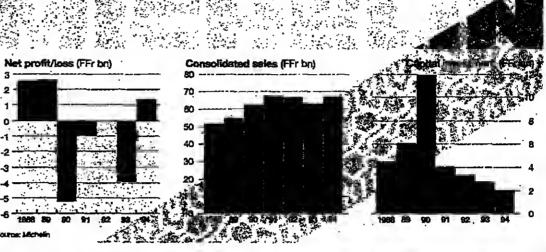
relationship between the town and the tyre giant has been trans-

# Michelin men make their mark

John Ridding and Andrew Gowers examine the French tyre group's attempt to become an all-terrain production vehicle

Michelin: back on track





debts and a tough restructuring task just as recession hit.

Mr Michelin says that the process of reorganising the Uniroyal and Goodrich plants is complete and that the US operations will bring a profit in 1995. His bankers say that restructuring programmes, which have cut the workforce from 140,000 in 1990 to 117,000, are evidence that Michelin now pays as much attention to the bottom line as it has traditionally given to innovation. This innovative hent prompted early experiments in leather and

nail-studded tyres and the invention of the radial in the 1940s, with detours into restaurant guides and road signs. François explains that the maps and the signposts were necessary to get people on to the roads. But he talks more about the need to maximise the efficiency of There is now a much tighter

focus on returns," says Mr Hervé de Carmor, chairman of RIMP, one of agree, predicting a strong increase and sell their tyres.

robust performance in 1996. New challenges, however, have rapidly followed recovery. Price increases, pushed through to offset a rise in raw material costs, have prompted an antitrust probe into tha tyre industry by the US Justice Department. Car manufacturers, confronted by stagnant European sales and a peaking US market, are maintaining pressure on margios.

More fundamental challenges are posed by shifts in the world tyre industry. "One big issue is how Michelin, a premium brand company, copes with the trend towards lower-cost tyres," says Mr Chris Moore, a Morgan Stanley analyst. Other challenges include the search for new sources of growth. The Michelins' response ranges

from expansion in rapidly growing regions, notably east Asia, where they are seeking partners, to making economies in mature markets. Further measures include the development of new technol

still inadequate, claims cost-cutting remains central to the company's plans. "We must be an all-terrain vehicle which is not dependent on interest rates and economic cycles. says Edouard, referring to the need to cut net dehts of FFr21.4bn. These objectives are to he

chieved partly through continued productivity measures and 8 reorganisation of European plants into specialised factories to achieve economies of scale. Michelin's Classic brand of tyres for passenger cars, for example, is now produced at just two plants, in Dundee in Scotland and Bourges in France. The reorganisation should be finished by the end of next year. In line with its technological

traditions, Michelin is also aiming for efficiency gains through its latest and most mysterious innovation - the C3M, an automated manufacturing unit which can switch between different tyres. .

higgest in the tyre industry, with Michelin's bankers. Other analysts reorganisation of how they make glint to the father's eye. Like much about Michelin, the system has François, who accepts profits are been shrouded in secrety. But Fran-

cois compares its potential industrial impact to that of the float glass process which revolutionised glass manufacturing following its intro-duction by Pilkington of the UK in 1959. His claims that "each machine is a factory" and that a machine could fit in the 25ft by 15ft room in which he is dining provide some

support to his assertion.
One C3M unit is already operational at Clermont-Ferrand. Others will be introduced to satisfy new market niches, rather than to increase capacity. By allowing increased flexibility in production, it will help Michelin respond to the increased diversity of customer demand, a trend which has also prompted the launch of the Classic, Pilot and Energy ranges. Car manufacturers also cite increased responsiveness from Michelin, which has managed to shed its reputation for

owever, market pressures to increase the speed of product development and cut costs have posed problems at Michelin, where information has traditionally been rationed on a need-to-know But this is changing. One US engineer among the 2,300 R&D staff at Clermont-Ferrand describes a shift towards teams in which staff from different departments co-operate in

designing products.

Edouard appears to have pushed for such organisational reform, allowing him to make his mark on the company since his return from the US. François is behind the moves. "Different stages of a company's life require different solutions," he says.

But there are limits to change. Although the company has grown from one workshop to 67 plants, the peculiar legal structure of the com-pany, which is known as a societé en commandite par octions and which maintains family control of the capital, seems set to continue. "Would you fly in a plane guided by remote control?" asks Mr Michelin, arguing that the unlimited liability of the commandite, or managing partners. ensures committed management and enables quick action. Many in the financial community

bridle at Michelin's structure and the lack of shareholder control, But they accept it has allowed the pursuit of long-term strategies. The French group obtained an enduring lead in the production of radials, partly because foreign rivals balked at the investments needed to produce the new tyres. The Green tyre, which cuts fuel

consumption through reduced friction with the road, is a recent example. The expensive 20-year development process prompted opposition from within Michelin, and the 1991 launch required forceful intervention by François. "The role of the boss is to stand outside the company structure and make those decisions," he says. So far those decisions have

proved right, if sometimes risky. "It has been a rough ride, but they have a strong position in markets and technology," says one of their main costomers. "The Michelins not in the short term." But then the short term was never the greatest concern at Clermont-Ferrand.

# A roly-poly relationship

at the heginning of the 1990s prompted a series of job cuts which came as a severe hlow to the community. The Clermont-Ferrand payroll fell from 29,000 in 1980 to fust under 16,000 today. Before the cuts, the company had already with-drawn from the provision of clinics, schools and other social centres.

With the revival in Michelin's fortunes, employment levels have stabilised. But the upheavals have left their mark. "You can no longer call us Michelinville," says Mr Roger Quilliot, the Socialist mayor who has run the city for the past 20 years. "The relation-

thing, "There are always risks when one company dominates the economy. For the past 10 years my main task has been to offset the decline in employment at Michelin and diversify our husiness base." In this, he claims success. "We have created more than 12,000 jobs, many in the service sector."

Attitudes towards the company have also changed. "There was anger and distilusion when the cuts came," says the bartender in a town centre café, "Michelin used to be God and the devil," says Mr Quilliot. "It was regarded with

pride and hostility, in both cases because of its influence. Now people regard Michelin as a company like any other."

Not quite like any other, for Clermont-Ferrand at least. The adjustment of the relationship has been a reappraisal rather than a rupture. Michelin continues to provide a quarter of the city's private sector jobs. Although its social role has been much reduced, and the discreet Michelin family has kept out of local politics, the company continnes to support the community. ASM, the local sports club, remains as a vestige of Michelinville. More fundamental are the ties of

character between the city and its famous family. "François is a prodnct of the region," says Mr Alain Etchegoyen, the philosopher and occasional consultant for the Michelin chief. Others refer to the austere traditions of the Anvergne region, reflected in the Jansenist religious movement which flourished there, and matched by the Michelins' style. They are absolutely representive

of the Anvergne temperament," says Mr Quilliot. "People here do not seek luxury and the Michelins are not the kind to hold grand receptions." Like the volcanic hills which surround the city, the family blends into the scenery which it

John Ridding

## **OBSERVER**

#### Bankers we've trusted

■ Oh to have been a fly on the wall when Procter & Gamble's andit committee met on April 12 last

The subject of discussion: how the company came to lose millions of dollars on derivatives it bought from Bankers Trust. Appearing to explain the problem: Erik Nelson, then (and still) the company's chief financial officer.

Highlights of Nelson's comments. made available in evidence unsealed by the court this week, catch the flavour of his presentation. "We didn't test any 'worst case'

scenarios to see what would happen if interest rates took off on us... "We were betting that the

financial markets wouldn't move against us. This, too, ran contrary to our policy of knowing our risk up front at the time we enter into a "In hindsight, the lessons are

obvious, but at the time our judgment was clouded by the helief that rates wouldn't rise quickly and that we understood the pricing formula when in fact we didn't... "Several weeks went by when we

were operating with the hope that the problem would go away ... "I can tell you that those involved feel every bit as badly as I do. We have all learned a lesson."

Nelson concludes his comments:

"I can personally assure you that the situation I've just described will never happen again. May I answer

Seeing red Robin Cook, Labour's foreign affairs spokesman, has managed to

make a few enemies in the City this week. Talking about the single currency and its possible impact on employment, he let slip at the party conference on Tuesday that he was not worried about the jobs of men in red braces speculating against the pound". Now, traders are vain souls, who

dislike having the size of their contribution to the balance of payments cast in doubt hy a hirsute politician. But what they really resent is being muddled up with bond dealers. Memo to Rohin. It's the gentlemen who prefer bonds who sport the red braces - while the fx boys like to be known for the whiteness of their socks.

#### French connection

■ What is going on at Paribas Capital Markets (PCM) in London? Patrick Stevenson, 50, the architect of PCM and a 25-year veteran of the bank, has been made chairman of Paribas Europe and senior adviser to Banque Paribas' executive committee.

Stevenson, who despite his name is French, has been running PCM

since its inception in 1984 and has established it as the most prominent of the French houses in

London, But despite his impressive new title Paribas-watchers sense that that he has been leap-frogged by Luqman Arnold, 45, a protegé of the erstwhile Euromarket superstar Hans-Jörg Rudloff, who arrived from CSFB in 1993 as global head of investment banking.

The formidable Arnold, who (despite his name) is British, and who was previously reporting to Stevenson, now moves to the Paris beadquarters as head of husiness development. Despite the dubious sounding title, it is a very serious job indeed and - the French indicate - a pretty surprising one for a mere Brit. Obviously a man to keep tabs on.

#### Ducking out ■ What do senior French

politicians do when they tire of reading criticism about themselves in the press? They launch a boycott, naturellement. President Mitterrand led the way

by terminating his subscription to Le Monde, which had been addressing the subject of corruption in his administration.

Now Alain Juppé, the prime minister, has followed suit, ordering all those under his command to stop buying Canard Enchaine. The weekly satirical paper has been publishing a series of allegations of misuse of power by Juppé -

including his demand for a 10 per cent reduction in rent on his son's spartment. But the Canard has struck back.

To ensure that the prime minister can remain up to date with its revelations, it has offered him three months worth of newspapers gratis. discreetly sent to his home address. It promises that a simple word from him will suffice to trigger a subscription for his son as well, at a 10 per cent discount.

#### Open and shut case How's this for an excuse for a

night in jail? John Sutton, hody guard of Dr Richard Leakey, the white Kenyan anthropologist with political aspirations, was arrested earlier this week while attending the trial of an opponent of Kenya's President Daniel Arap Moi. His house was searched, diary rifled, documents confiscated, and car seized. Nothing.

Then a smart young copper spotted the incriminating evidence. Sutton was charged with "possessing a penknife without a permit".

#### Name recognition

A man carrying a pole enters the Olympic arena, but is stopped by the guards. "Are you a pole vaulter" queries one of the officers. "No German: but how did you know my

Financial Times

#### 100 years ago The French budget deficit Paris: According to the "Figaro",

the Government, in order to meet the expenses of the Madagascar Expedition, has sold out stock on the Depots and Consignations Fund to the amount of 20,000,000 Francs and this is the reason why the 3 per cent Rentes have recently dropped, despite the absence of any particularly disturbing features in the political situation. The "Figaro" characterises this as a fraud on the State and a sure means, if persisted in, of bringing about national bankruptcy.

#### 50 years ago

Paris bid for arbitrage Paris: Although arbitrage operations are not yet possible here owing to exchange regulations, the Bourse syndicate have already contacted financial authorities with a view to renewing such operations.

The syndicate has put forward a plan for the resumption of arbitrage on the understanding that movements of capital are not involved. This would mean. as in New York, that sales and purchases must correspond in